Manitoba

OFFICE OF THE AUDITOR GENERAL

Audit of the Public Accounts for the year ended March 31, 2002

As a leader in promoting enhanced accountability of government to the citizens of Manitoba, the Office of the Auditor General will contribute to greater public trust and confidence in the institutions of government.

Vision

As a leader in promoting enhanced accountability of government to the citizens of Manitoba, the Office of the Auditor General will contribute to greater public trust and confidence in the institutions of government.

Mission

To contribute to effective governance by the Manitoba Legislature, we provide the Members of the Legislative Assembly with independent assurance and advice on:

government accountability information;
compliance with legislative authorities;
and the operational performance of government.

Values

IN INTERPERSONAL RELATIONSHIPS

Respect ***Honesty***
Integrity ***Openness***

IN ACHIEVING OUR VISION AND MISSION

Teamwork
Independence
Balanced Perspectives
Professional Excellence

Office of the Auditor General
500 - 330 Portage Avenue
Winnipeg, Manitoba R3C 0C4

December 2002

The Honourable George Hickes
Speaker of the House
Room 244, Legislative Building
Winnipeg, Manitoba
R3C 0V8

Dear Sir:

I have the honour to transmit herewith my December 2002 report on the Audit of the Public Accounts for the Year Ended March 31, 2002 to be laid before Members of the Legislative Assembly in accordance with the provisions of Section 28 of The Auditor General Act.

Respectfully submitted,

Jon W. Singleton, CA•CISA
Auditor General

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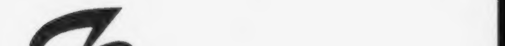
REFLECTIONS OF THE AUDITOR GENERAL



The Government's financial reporting and budgeting are inconsistent. The Government has indicated in its response to my recommendations, that it intends to maintain this inconsistency indefinitely. It has not accepted that its Summary Budget should be its primary tool for communicating its financial plan to the Legislature and the citizens of Manitoba. This is disappointing.

During my six and a half years as Auditor General, I observed many improvements in the general purpose financial statements of the Government – the Summary Financial Statements. One important improvement is to position the Summary Financial Statements as the primary tool for reporting on the financial affairs of government. The logical step of making the related Summary Budget primary has yet to be taken.

The Summary Financial Statements provide audited information on the aggregate financial affairs and resources for which the Government is responsible. The Summary Budget discloses fiscal planning on the aggregate financial affairs and resources for which the Government is responsible.

I acknowledge that it is equally important for the Legislative Assembly and the citizens of Manitoba to also ensure that the Government meets its financial commitments under Balanced Budget Legislation as currently presented in the Special Purpose Financial Statements. However, achievement of a balanced budget could succinctly be communicated in a note contained within the Summary Financial Statements, and could be highlighted as a subset within the Summary Budget.

Placing more emphasis on the Summary Budget is important because:

- There is considerable financial activity within the overall Government Reporting Entity that is not reflected in the budget for the Operating Fund.
- It would provide a focus for broader debate in the Legislature on government fiscal plans.
- When aligned with reporting used in the Summary Financial Statements, it will facilitate comparison of budget to actual, thereby furthering more informed debate.
- It is prepared on a basis that is close to generally accepted accounting principles.
- It facilitates comparison of Manitoba's results to other jurisdictions. The governments of Canada, British Columbia, Alberta, Ontario, Quebec and New Brunswick have already made the Summary Budget their primary budget.

Clear financial reporting and budgeting is a critical component of our system of democracy. As long as the Government continues to give primacy to a budget prepared on a basis different than most other governments in Canada, the Legislature and the citizens of Manitoba will be hindered in their ability to hold the government of the day accountable for its management of public monies. As a result, I intend to continue challenging the Government of Manitoba to join the mainstream in Canada throughout the remainder of my mandate.

I will also continue to recommend that the Government adopt Canadian Generally Accepted Accounting Principles (GAAP) for senior governments as recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants, without exceptions, as the basis of accounting for all government reporting, including the Summary Financial Statements, the Summary Budget and the Quarterly Reports. Essentially, while I commend the Government for improvements made in its financial reporting practices over the past few years, there are still some steps to take to complete the journey.

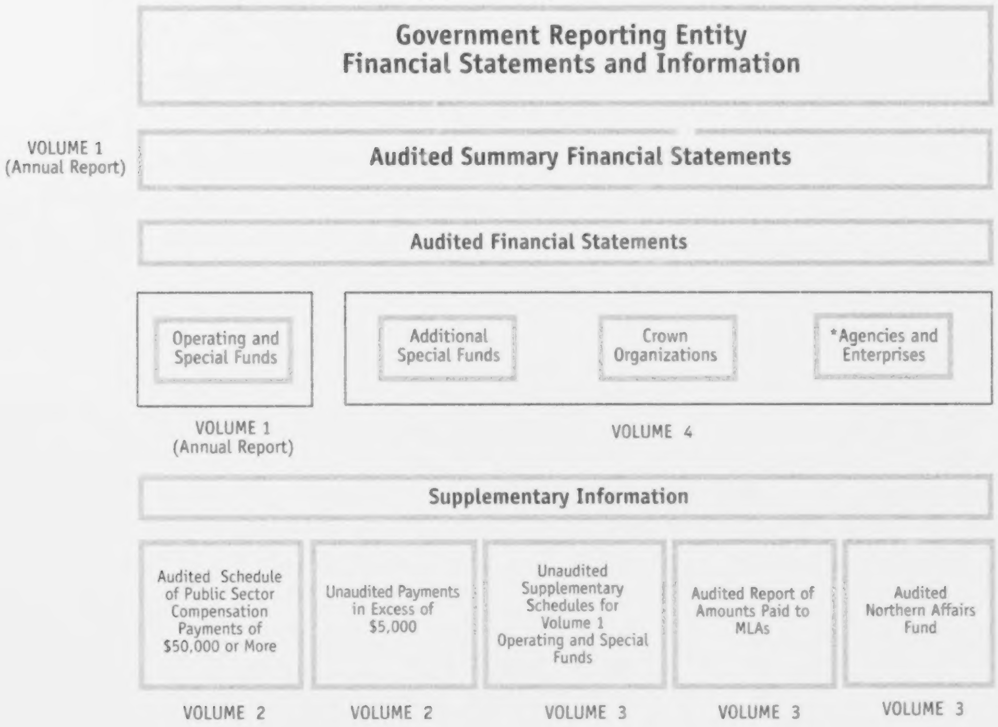
On a closing note, I would like to commend the Department of Health for their openness and receptiveness in constructively addressing recommendations that arose during our audit of the Province's Health Report Card.

Jon W. Singleton, CA•CISA

OVERVIEW OF THE PUBLIC ACCOUNTS

Financial Reporting Structure

Financial Reporting Structure of Manitoba's Public Accounts


Government Reporting Entity Financial Statements and Information
VOLUME 1 (Annual Report)
Audited Summary Financial Statements
Audited Financial Statements
Operating and Special Funds
Additional Special Funds
Crown Organizations
*Agencies and Enterprises
VOLUME 1 (Annual Report)
VOLUME 4
Supplementary Information
Audited Schedule of Public Sector Compensation Payments of $50,000 or More
Unaudited Payments in Excess of $5,000
Unaudited Supplementary Schedules for Volume 1 Operating and Special Funds
Audited Report of Amounts Paid to MLAs
Audited Northern Affairs Fund
VOLUME 2
VOLUME 2
VOLUME 3
VOLUME 3
VOLUME 3

* Detailed Audited Financial Statements of Special Operating Agencies (SOAs) are included in a separate annual report prepared for the Special Operating Agencies Financing Authority (SOAFA)

The Public Accounts of Manitoba represent the annual financial statements for the Government of the Province of Manitoba (Government). These financial statements provide an important link in an essential chain of public accountability. They are the principal means by which the Government reports to the Legislative Assembly and to all Manitobans on its stewardship of public funds.

The Public Accounts are prepared in accordance with the Financial Administration Act and contain the financial statements and supporting information required by this legislation. The Public Accounts also include information required by other legislation such as the Balanced Budget, Debt Retirement and Taxpayer Accountability Act and by the Public Sector Compensation Disclosure Act.

Public Accounts are represented by two distinct sets of financial statements that satisfy two unique purposes. The Summary Financial Statements are the **General Purpose** statements of the Government. They provide audited information on the aggregate financial affairs and resources for which the Government is responsible, including government enterprises and crown organizations as listed in Exhibit E. The Summary Financial Statements are prepared in accordance with public sector accounting standards (as issued by the Public Sector Accounting Board [PSAB]) of the Canadian Institute of Chartered Accountants (CICA). These are the appropriate statements to use when comparing the operating results and the financial position of the Government to other provinces and the federal government. The consolidated net loss reported in the Summary Financial Statements of the Government for 2001/02 was $10 million.

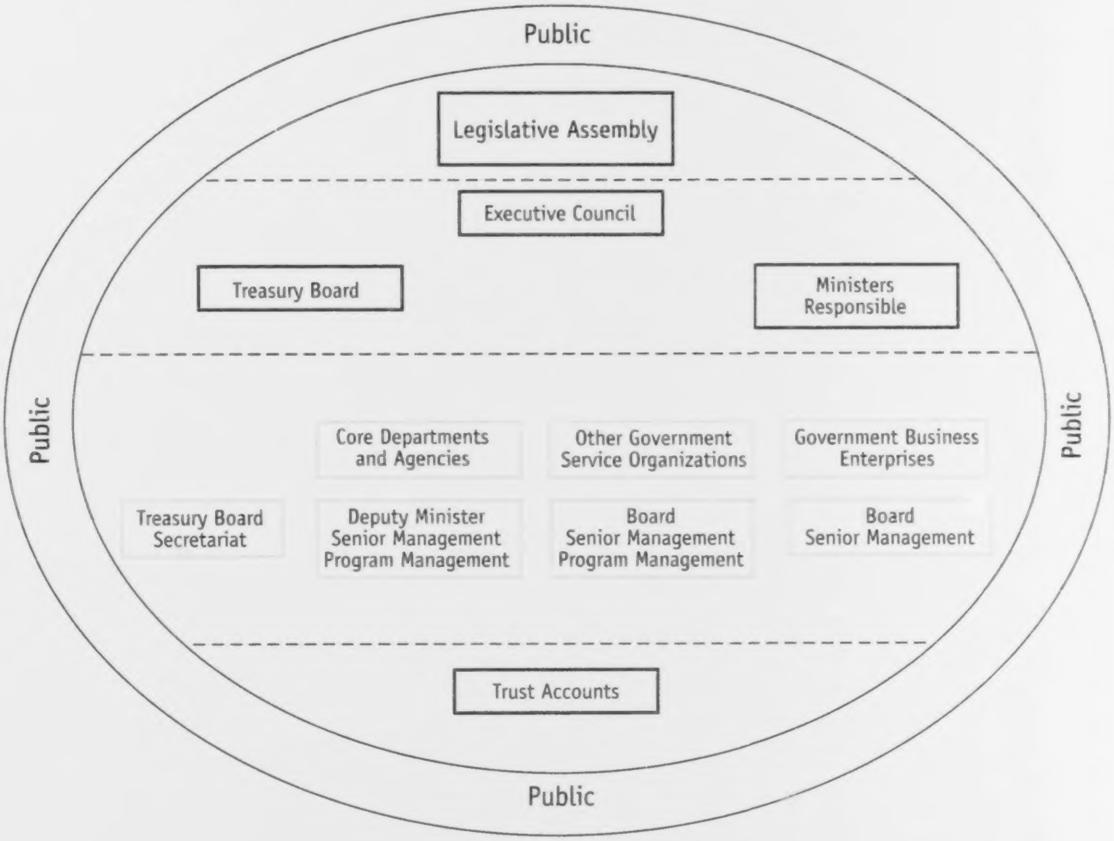
The other set of financial statements presented for Public Accounts are the Financial Statements of the Operating Fund and Special Funds. They are **Special Purpose** in nature and are intended to serve as the Government's accountability report to the Legislative Assembly only on revenues raised and expenditures made as authorized by the Appropriation Act and other statutory spending authorities. These financial statements are also used to reflect the Government's compliance with the Balanced Budget, Debt Retirement and Taxpayer Accountability Act. For 2001/02 the Government achieved a positive balance of $63 million including interfund transfers from the Fiscal Stabilization Fund and to the Debt Retirement Fund and, therefore, was in compliance with balanced budget legislation. These statements do not incorporate the Government's unfunded pension liabilities or the results of other organizations owned and controlled by the Government as included in the Summary Financial Statements.

The Public Accounts for the 2001/02 fiscal year are published in four volumes. The preceding chart illustrates the structure of the Government's financial reporting in the Public Accounts.

> **Volume 1**, *Province of Manitoba Annual Report*, contains the audited General Purpose Summary Financial Statements and the audited Special Purpose Financial Statements of the Operating Fund and Special Funds (Operating Fund). It also contains the Minister of Finance's comments for the year ended March 31, 2002, and information on the Manitoba economy. It further contains discussions on financial indicators and variance explanations for both the Summary Financial Statements and the Special Purpose Financial Statements of the Operating Fund.
>
> **Volume 2**, *Supplementary Information*, contains details of employee compensation of $50,000 or more, as well as information on other payments from the Operating Fund in excess of $5,000 to corporations, firms, individuals, other governments and government agencies. The information on employee compensation of $50,000 or more is audited as required by the Public Sector Compensation Disclosure Act. The information on other payments from the Operating Fund to corporations, firms, individuals, other governments and government agencies is unaudited.
>
> **Volume 3**, *Supplementary Schedules and Other Statutory Reporting Requirements*, provides additional information on the Operating Fund of the Government. This financial information is unaudited with the exception of the Report of Amounts Paid to MLAs and the Northern Affairs Fund.

Volume 4, *The Financial Statements of Funds, Organizations, Agencies and Enterprises Comprising the Government Reporting Entity*, contains the individual audited financial statements of the various entities owned or controlled by the Government which comprise the Government Reporting Entity for the Province of Manitoba, except for the Operating Fund and Special Operating Agencies (SOAs). The audited financial statements of SOAs are included in a separate annual report prepared for the Special Operating Agencies Financing Authority.

Accountability Organization


Public
Legislative Assembly
Executive Council
Treasury Board
Ministers Responsible
Public
Public
Core Departments and Agencies
Other Government Service Organizations
Government Business Enterprises
Treasury Board Secretariat
Deputy Minister Senior Management Program Management
Board Senior Management Program Management
Board Senior Management
Trust Accounts
Public

This overview or model can be used when considering accountability at various levels within Provincial operations reflecting the Government's accountability to the Legislative Assembly, Departments' and Provincial public sector entities' accountability to the Government, Deputy Minister's or Board's accountability to a Minister, and Management's accountability to a Deputy Minister.

It also provides an overview of the accountability organization with respect to the Provincial public sector. It is not intended to represent all parties or relationships involved, but rather to emphasize the various levels that exist and that accountability to the public is relevant at all levels.

Auditor Independence and Objectivity

In the wake of the Enron, Worldcom and other financial disasters, Canadian Chartered Accountants, Canadian Securities Administrators and the Office of the Superintendent of Financial Institutions like their American counterparts have taken steps to help restore confidence in the assurance provided in our auditors' reports. In the Canadian context, the above group announced the creation of a new accountability board to oversee auditors of publicly traded companies in Canada. The Canadian Public Accountability Board (CPAB) is "designed to protect the public interest and to strengthen investor confidence in capital markets by implementing more rigorous inspections of public [publicly traded] company audits, tougher auditor independence rules and new quality control requirements for firms auditing public [publicly traded] companies".[1]

In the legislative audit community, we also want to ensure that we maintain the highest standards of independence and objectivity in the conduct of our audits. In Manitoba, our audit role includes an involvement with prospectuses as well as the financial statement audit of the Public Accounts and other entities. We do not provide non-assurance services such as designing or implementing a hardware or software system, valuation services, financial statement preparation or bookkeeping services, legal services or internal audit services. Those services along with a financial interest in the organization and a lack of independence resulting from an inadequate rotation of the audit partner (audit principal) have been flagged as contributing to failures to provide the high level of assurance associated with generally accepted auditing standards.

Because legislative auditors report directly to the Legislative Assembly, we are independent of government. Further, because we have no financial interest in organizations we audit, and do not benefit from the audit fees we charge, we are less vulnerable to independence threats existing in the private sector.

Furthermore, the threat of pressure to promote an audited organization position or opinion and the threat of intimidation where we could be deterred from acting independently due to an actual or perceived threat from an audited organization are also less substantial in our environment because the Auditor General reports directly to the Legislative Assembly and is appointed for a minimum term of ten years.

Similarly, the threat that we might become too sympathetic to an audited organization's interests to maintain our objectivity is dealt with in the political process by the requirement for periodic general elections as well as the ten year term of the appointment of the Auditor General. In addition, staff rotation on the audit of the Public Accounts and the influence of the broader legislative audit community assist us in maintaining our objectivity.

Another step taken to maintain our independence and objectivity, actual and perceived, is that in the coming year we will obtain engagements letters even where we are appointed auditors by statute. We will also further formalize our communication with audit committees or their equivalents and take steps to ensure that the private sector auditors of the entities of the government reporting entity adhere to independence and conflict of interest standards.

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[1] *CA Magazine*, September 2002, pg. 51

In conclusion, we are always concerned about providing a high level of assurance in our reports to the Legislative Assembly, and therefore to the citizens of Manitoba, and will continue to ensure our independence and objectivity.

Summary Financial Statements - Auditor's Report

The Auditor General Act requires the Auditor General to provide assurance to the Legislative Assembly on the annual Public Accounts and other accountability documents prepared by the Government. To address this mandate, the office issues high level assurance reports in the format of the standard auditor's report recommended by the Canadian Institute of Chartered Accountants (CICA).

The purpose of the auditor's report is to provide the reader with a high level of assurance on the fairness of financial statements, while clarifying the roles of management and the auditor with respect to these financial statements, and outlining the nature and scope of audit work conducted.

An unqualified auditor's report, where there is no reservation of opinion, contains three standard paragraphs. The introductory paragraph identifies the financial statements that have been audited and reflects management's responsibility for preparing the financial statements as well as the auditor's responsibility for expressing an opinion on the fairness of the balances, transaction totals and overall presentation. The second paragraph describes the nature and extent of the auditor's work and the degree of assurance that the auditor's report provides. It refers to Generally Accepted Auditing Standards (GAAS) and describes some of the important procedures the auditor undertakes. The final paragraph contains the auditor's opinion or conclusion based on the audit conducted.

The Public Sector Accounting Board (PSAB) provides the generally accepted accounting principles for the public sector in Canada. PSAB pronouncements represent the consensus of senior government officials, legislative auditors and other experts in public sector accounting across Canada. They represent standards for governments and are the benchmark for acceptable financial reporting.

The auditor's reports issued by Manitoba's Auditor General as well as by other legislative auditors across Canada reflect the extent to which government financial statements comply with these auditing, accounting and financial reporting standards. In situations where government financial statements do not comply with PSAB standards, legislative auditors consider the need to include a reservation in their opinion. These standards are designed to apply to the Summary Financial Statements of the Government.

In Manitoba, the Summary Financial Statements are presented in the Annual Report, together with the Auditor General's Report thereon. For the sixth consecutive year, the Auditor General's Report on the Government's Summary Financial Statements was issued without reservation. It should be noted, however, that the audit opinion is not a Generally Accepted Accounting Principle's (GAAP) opinion, and the exceptions to GAAP are disclosed in Note 1 to the Summary Financial Statements for the year ended March 31, 2002 as reproduced in Exhibit B on page 88 of the Appendices.

The Government's accounting policies are in transition. Our office supports this transitional process as well as the presentation and disclosures that have been adopted by the Government for this transitional period.

The Auditor's Report on the Summary Financial Statements is included for reference in Exhibit A at the end of this report, along with an excerpt of the Summary Financial Statements for the year ended March 31, 2002 contained in Exhibit B.

Special Purpose Financial Statements of the Operating Fund and Special Funds

AUDIT OPINION ON THE SPECIAL PURPOSE FINANCIAL STATEMENTS OF THE OPERATING FUND AND SPECIAL FUNDS

As mentioned previously, the Financial Statements of the Operating and Special Funds (Operating Fund) are special purpose in nature. They are intended to serve as the Government's accountability report to the Legislative Assembly on revenues raised and expenditures made as authorized by the Appropriation Act and other statutory spending authorities. These financial statements are also used to reflect the Government's compliance with the Balanced Budget, Debt Retirement and Taxpayer Accountability Act and the Financial Administration Act.

In prior years, the Auditor's Report on the Operating Fund has been prepared to draw the attention of readers to the special purpose nature of the financial statements and to caution readers against placing undue reliance on such financial statements. In the opinion paragraph of the Auditor's Report, there was no reference to the presentation as 'fair', because these financial statements are not intended to reflect the financial results of Government as a whole. However, beginning with the 2000/01 Annual Report, the Government has adopted a presentation format that clearly discloses the Financial Statements of the Operating Funds as special purpose. The title page to the financial statements is labeled "Province of Manitoba Special Purpose Statements of Accountability for Stewardship of Central Government Operations and Balanced Budget Legislation". Each of the pages in the financial statement is headed with "Operating Fund and Special Funds – Special Purpose Financial Statements". As this clearly shows the special purpose nature of the financial statements, the additional description in the Auditor's Report of the special purpose nature of the financial statements was removed, and the presentation was referred to as 'fair'.

Special Purpose Financial Statements are by their nature incomplete and often deviate significantly from GAAP. Hence, while required for reporting on compliance with balanced budget legislation, they are not complete for understanding the Government's management of its financial affairs.

This is the second year since 1988 that we have issued an unqualified audit opinion without additional description for the Special Purpose Financial Statements of the Operating Fund.

The Auditor's Report on the Special Purpose Financial Statements of the Operating Fund and Special Funds is included for reference in Exhibit C at the end of this report, along with an excerpt of the Operating Fund and Special Funds for the year ended March 31, 2002 contained in Exhibit D.

PENSION LIABILITIES EXCLUDED FROM THE OPERATING FUND

In 1990, our office issued our first audit qualification for pension liabilities not being recorded in the Financial Statements of the Operating Fund. Each year since then we have recommended the Government amend its accounting policy for pension costs and liabilities. In 2001/02, the unrecorded pension liability for the Operating Fund approximated $3.1 billion.

In 1999/2000, the Government issued the Summary Financial Statements and the Financial Statements of the Operating Fund in a single volume with the Financial Statements of the Operating Fund subordinate to the Summary Financial Statements. Presenting the Financial Statements of the Operating Fund in this manner reduces our concern somewhat regarding the unrecorded pension liability. As the pension liability is recorded in the Summary Statements, the impact on the entire Government Reporting Entity including the Operating Fund is readily apparent.

Furthermore, the Government committed, starting 2000/01, to set aside funds equal to the pension contributions for all civil servants and teachers hired on or after April 1, 2000. They also committed to set aside additional funds from time to time toward the pension liability. Total funds set aside over the 2001 and 2002 fiscal years have amounted to $107 million.

While we prefer that the Government record the entire pension costs in the Operating Fund, we are encouraged by the presentation of the Financial Statements of the Operating Fund as special purpose and subordinate to the Summary Financial Statements in the Annual Report. We are also encouraged by the Government's making the initial steps in funding the pension liability.

Balanced Budget Legislation

WHAT IS IT?

Balanced Budget Legislation, enacted in the fall of 1995 with amendments in 2000, is a prescribed set of rules incorporated in legislation, in The Balanced Budget Debt Retirement and Taxpayer Accountability Act (Act). Those rules are used to determine if the Government of the day has generated a positive balance in the Operating Fund for a fiscal year, meaning generating more revenue than the expenses incurred and factoring in transfers from the Fiscal Stabilization Fund and to the Debt Retirement Fund. According to the Act, the Government is not to incur a negative balance in the Operating Fund. The main rules are as follows:

- An excess of revenue over expenses is determined according to the accounting policies of the Government as disclosed in the audited financial statements. If there is a reservation in the Auditor's Report to the financial statements resulting from a change in accounting policies not authorized in the Act, then the financial statements must be restated to ensure that the financial effects of that change did not result in a positive balance which would have otherwise, under the former accounting policy(ies), have resulted in a negative balance. If a change in accounting policies did result in a change from a negative to a positive balance, then the government will not have achieved a balanced budget.

- The existing accounting policies are disclosed as Canadian generally accepted accounting principles for senior governments as recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants with certain exceptions. One notable exception is the failure to record in the Operating Fund the liability related to the unfunded pension obligations. As a result, the change in the unfunded pension liability is not reflected in the determination of a positive or a negative balance.
- The Act permits a once a year interfund transfer, a transfer into the Operating Fund, from the Fiscal Stabilization Fund, often referred to as the "Rainy Day Fund", of an amount up to the maximum of the balance of the Fiscal Stabilization Fund. That transfer in is also included in the determination of the balance according to balanced budget legislation.
- The Act also prescribes that as a target, an amount equal to 5% of the year's expenses in the Consolidated (Operating) Fund or any greater amount that the Minister (of Finance) considers appropriate is to be transferred to the Fiscal Stabilization Fund. Only a positive balance may be transferred back to the Fiscal Stabilization Fund for use in future years. The transfer out is not included in the determination of a positive or negative balance according to balanced budget legislation.
- Any transfers out of the Debt Retirement Fund to the Operating Fund for the repayment of the outstanding debt and pension obligations are not included in the determination of a positive or negative balance according to balanced budget legislation.
- A calculated amount, presently at $96 million, shall be transferred annually, from the Operating Fund to the Debt Retirement Fund to provide for the future retirement of the outstanding debt and pension obligations. That transfer out, an interfund transfer, is also to be reflected in the determination of a positive or negative balance according to balanced budget legislation.
- The above interfund transfers as noted are included for purposes of determining if there is a positive balance in the Operating Fund, according to balanced budget legislation. However, interfund transfers are not included in the determination of an excess of revenue over expenses according to generally accepted accounting principles.
- Should there be a negative balance in a fiscal year then there must be an offsetting positive balance in the next year unless there is a general election and the party forming the Government has changed. Then if, in the year of a general election, the party forming the Government has changed and there is a negative basis, the new government is not required to have an offsetting positive balance in the following year.

- There are financial penalties to the members of the Executive Council for failing to meet the requirements of the Act.
- The Act does not apply in the case of war or a natural disaster that affects the Province which could not be anticipated or if there is greater than a 5% reduction in revenue in the fiscal year, providing the reduction did not result from a change in Manitoba taxation laws. The proceeds from the sale of a Crown Corporation are not to be included in the determination of a positive balance.

Fiscal Stabilization Fund

WHAT IS IT?

The Fiscal Stabilization Fund (Fund) was established under the authority of The Fiscal Stabilization Fund Act (Act), which was enacted in 1989 and was amended in 2000. The purpose of the Fund as set out in the Act is to assist in stabilizing the fiscal position of the government from year to year and to improve long-term fiscal planning. The Fund is often referred to as the "Rainy Day Fund".

In 1989, in its first year of existence, the Government of the day transferred $200 million from the Operating Fund into the Fund. That transfer created a $142 million deficit in the Operating Fund where there would otherwise have been $58 million surplus for the year ended March 31, 1989. At the time, we qualified our opinion on the $58 million surplus. Since then there have been other sizable transfers into the Fund including the proceeds from the sale of the Crown Corporation, Manitoba Telephone System.

Legislative amendments were made to the Act in 2000. Consequently, the Government can no longer deposit in the fund any revenue or other financial assets received by the Government in a fiscal year ending after March 31, 2000 as a result of selling shares or assets of a Crown corporation in the course of a privatization of the Crown Corporation and the Government can only transfer positive balances (from the Operating Fund) - the transfer cannot create an annual deficit in the Operating Fund.

The primary activities of the Fund are interfund transfers. The transfers are either transfers out to the Operating Fund or transfers into the Fund from the Operating Fund. The Fiscal Stabilization Fund also earns income on the investment of the assets of the Fund, which is retained in the Fund until transferred out.

With regard to transfers into the Fund, the Government may deposit in the Fund, any part of revenue or other financial assets received in the Operating Fund in any fiscal year. Furthermore, the target level for the Fund is a minimum of 5% of the expense of the Consolidated (Operating) Fund.

The Government may transfer out of the Fund, all or part of the Fund balance to the Operating Fund, but the Government may only make one transfer out each fiscal year.

This Fund is used to facilitate the balancing of the Government's actual annual financial results.

PUBLIC ACCOUNTS - IMPROVEMENTS AND RECOMMENDATIONS

Improvements in Financial Statement Presentation and Disclosure

We advised the Comptroller and the Minister of Finance about a number of areas where the financial statement disclosure could be improved in accordance with the recommendations in the Public Sector Accounting Board (PSAB) Handbook. They were as follows:

- Change the reference from consolidated statements to summary statements through out the body of the Summary Financial Statements;
- Disclose transactions and balances with Government Enterprises on the Summary Financial Statements;
- Disclose the nature and terms of any guarantees relating to outstanding debt issued by Government Enterprises in the notes or schedules to the Summary Financial Statements;
- Describe the Sinking Fund Assets and their intended use split by organization in the Summary Financial Statements;
- Disclose the portfolio investment revenue from sinking funds and temporary investments in notes to the Summary Financial Statements;
- Disclose long-term debt interest recovered by the Government from government entities in notes to the Summary Financial Statements, or on one line on statement of revenue and expenses. Disclose guarantee fees in the notes to the financial statements; and
- Increase the Summary Financial Statements note disclosure of all pension plans the Government supports and disclose the pension expense the Government incurs.

The above improvements were made and disclosure is continuing to be improved on the financial statements. We commend the Government for the strides made in improving the financial statement disclosure in the Summary Financial Statements.

In addition, PSAB is currently revising the model by which the Public Accounts are reported. Currently, PSAB requires the Public Accounts to be reported using a Net Debt Model which effectively removes tangible capital and other non-financial assets. The new model being proposed by PSAB discloses Net Debt but also includes tangible capital and other assets. This is close to the way Manitoba currently reports its Public Accounts. This new PSAB Handbook Section is expected to be released by January 2003 for implementation for year ends commencing on or after April 1, 2005.

Recommendations Not Yet Implemented

FINANCIAL STATEMENT PRESENTATION AND DISCLOSURE

Summary Budget Presentation

Last year we noted that the Government had prepared a summary budget based on the budgets for all entities included in the Government Reporting Entity for the year ending March 31, 2002 in response to our recommendation and that this budget was presented in the 2001 Manitoba Budget. A similar summary budget for also prepared for the 2003 fiscal year and was presented in the 2002 Manitoba Budget. However, the budget presented in 2002 is still very brief and is not presented in the same format as the Summary Financial Statements.

The arguments for the preparation of a detailed summary budget are significant. There is considerable financial activity within the Government Reporting Entity, which is outside of the Consolidated Fund (Operating Fund). One need only view Schedules 8 and 10 of the Summary Financial Statements to become aware of the number of entities that compose the Government Reporting Entity. Without the detailed summary budget, the Legislative Assembly is not given the depth of financial information necessary upon which to fully debate the planned use of public funds. It is the comparison of the Summary Financial Statements actual results with a detailed summary budget which will permit a thorough analysis of the Province's financial position compared with planned results, and a measurement of the Government's management performance.

Canada and five of the other Provinces produce summary budgets that are tabled in Parliament/Legislatures. The governments of Canada, British Columbia, Alberta, Ontario, Quebec and New Brunswick have already made the summary budget their primary budget. These summary budgets are prepared on the same basis as the Summary Financial Statements of those governments. Three of these six summary budgets are voted on by the members of the Parliament/Legislatures. Manitoba is still not aligned with these jurisdictions in this regard.

We wish to reiterate that the Summary Budget should be presented on the same basis as the Summary Financial Statements to enable a reader to directly compare the budget to the Summary Financial Statements.

We continue to recommend that the Government make the Summary Budget its primary tool for explaining its financial plans to the citizens of Manitoba. This would be consistent with the decision to make the Summary Financial Statements its primary financial reporting tool. In essence, this would mean framing the annual budget documents around the Summary Budget, with the Operating Fund budget being shown in a subsidiary context to demonstrate how the government plans to comply with the Balanced Budget legislation and to highlight those expenditures that will require legislative approval. Similarly, the quarterly reports of the Province, a financial reporting tool, should be modified to reflect actual expenditures on the same basis as the Summary Budget.

COMMENTS OF OFFICIALS

We continue to review the Summary Budget format and to consider whether or not a different presentation would be more helpful and informative to the public, while respecting the governance framework that Manitoba has established for each of its Crown organizations. The Government's interest in those organizations has been and will in the foreseeable future be managed on a bottom line basis.

We believe it is important to provide Summary Budget information. However, we also believe that Manitobans hold the Government accountable first for its decisions on tax based operations - and second on the overall operations of government that include the net earnings of government entities and Crown Corporations that are unavailable to support the Province's core operations. Therefore, our first focus will continue to be the budget for the Operating Fund.

Expanding the quarterly reports of the Province to provide Summary Budget results would require significant increases in resource commitments without corresponding benefits. Government is not in a position at this time to allocate scarce resources to administrative overhead. Our priority continues to be effective delivery of tax-supported programs and keeping government as affordable as possible.

Full Adoption of Generally Accepted Accounting Principles

The following recommendations were made previously to the Minister of Finance and have yet to be implemented:

- Tangible capital for infrastructure is not recorded. PSAB requires infrastructure to be recorded. Similarly, in accordance with the PSAB Handbook, the schedule of Tangible Capital Assets should include separate disclosure of additions and disposals of tangible capital assets.
- The Government still records material adjustments resulting from changes in accounting policy or from the correction of an error which are attributable to and identifiable with prior periods as an adjustment to the accumulated deficit. Prior year balances are not restated. PSAB requires changes in accounting policies to be recorded retroactively with prior year balances restated.

Early implementation of the recommendations above would bring Manitoba closer to fully adopting generally accepted accounting principles in the Summary Financial Statements.

We recommend that the Government address these financial statement presentation and disclosure issues for the 2003 fiscal year Summary Financial Statements.

COMMENTS OF OFFICIALS

As previously agreed with the Auditor General, the Government has withheld its adoption of infrastructure capitalization pending receipt of a *research study being conducted by the Canadian Institute of Chartered Accountants on this subject. As at the date of this report, that research study has not yet been released and we continue to be concerned that adopting the standards, without knowing what the recommended changes might be and how those changes might impact on the Province of Manitoba, might not be in the best interest of Manitobans. However, the Government is committed to continuing its review of this accounting standard and will endeavour to implement the appropriate accounting policy at the earliest opportunity.*

We will review the proposal to restate prior year results, where they are affected by changes in accounting policies or the discovery of errors, as they affect the Summary Financial Statements. The Government believes that continuity of results from year to year in our financial statements is more important to citizens than continual restatements going back 10 years or more, in response to accounting standards. Changes in prior year numbers could also create doubt in the readers' minds as to the reliability of previously audited and reported results.

Quarterly Reporting

Last year we raised the concern about the releasing of a fourth quarter report. The Government publishes four unaudited quarterly reports on the Operating Fund of the central government. The reports include condensed operating results to the end of the respective quarters, projections for the year, and commentary on the results. The fourth quarter report for 2001/02 was released on August 29, 2002, approximately one month prior to the release of the audited financial statements.

We do not believe that the fourth quarter report should be released prior to the publication of the audited results. This quarterly report covers the same period as the audited Financial Statements of the Operating Fund but is issued prior to the release of the audited financial statements. Audited financial statements provide the reader with a high level of assurance that information is fairly presented. The reader does not have that assurance when reviewing the unaudited quarterly reports.

Although the Government's intent is to provide timely reporting to the public, we believe that releasing a fourth quarter report within weeks of the issuance of the audited financial statements may draw attention away from the audited statements which could potentially differ from the fourth quarter statements. Readers may prematurely form inappropriate conclusions on the results of the Operating Fund for the respective fiscal year if the unaudited fourth quarter financial statements differ significantly from the audited financial statements. The commentary presently provided in the fourth quarter report is also provided in the Annual Report.

We again recommend that the Government not release a fourth quarter report on the results of the Operating Fund.

COMMENTS OF OFFICIALS

Government is hesitant to remove the Preliminary Year End 4th Quarter Report from our public accountability framework, especially as it relates to *compliance with Balanced Budget Legislation. It is our goal to be able to issue this report in advance of the audited financial statements and believe that it is still important for Manitobans to be advised of the financial results of Government as soon as they are available, notwithstanding that they are not yet audited. Historically, the Preliminary Year-End Report and the audited Financial Statements have not been materially different.*

SAP VERSION 4.6b UPGRADE - FOLLOW-UP

SAP R/3

The Government of Manitoba (Government) uses SAP R/3 (SAP) as an enterprise solution for its accounting, logistics and human resource processes. SAP is a fully integrated computerized accounting and management information system and functions across multiple departments, agencies, commissions and sites throughout Manitoba. SAP allows for the sharing of common data, so transactions initiated by one business area may have a direct impact on other business areas. The broad and detailed functionality that gives the system its flexibility often results in complex control and security requirements.

Our office identified that the complexity of the controls and security requirements of SAP creates a new set of challenges to be addressed, as we need to rely on SAP in the audit of Public Accounts. To this end, we performed a review of the controls over SAP in the initial implementation of SAP version 3.1h, and we issued a report on the results of our review. A summary of this report was included in the March 31, 1999 Public Accounts Report to the Legislature.

The Government upgraded from SAP version 3.1h to version 4.6b in November 2000. We reviewed the upgrade to determine if there were any changes due to the upgrade that would affect our reliance on the controls over SAP in our audit of Public Accounts. A summary of this report was included in the March 31, 2001 Public Accounts Report to the Legislature.

For both the initial SAP implementation as well as the 4.6b upgrade there were three areas which we considered the most critical and were reported on previously. There has been progress made in these areas, but further development is required.

Review of Prior Year's Recommendations

1. Access to SAP by Departmental Managers

In our prior reviews there were several recommendations regarding access to SAP by Departmental managers.

We had recommended that departmental managers be provided with access to SAP and that the management tasks be removed from administrative staff as soon as possible. During 2001/02 there was an initiative for providing targeted access to SAP through the Manager's Desktop (MDT) program. Manager's Desktop provides managers with immediate access to a defined subset of 22 management reports for human resources and financial information. While approximately 350 managers attended Manager's Desktop training and went "live" on SAP in 2001/02 we understand that MDT continues to be rolled out but is not mandatory that managers access it. MDT is a good first step but increasing its use as well as expanding its functionality should be explored.

While MDT provided access to specific reports in SAP our recommendation in regard to not having administrative staff complete management tasks on SAP has yet to be met.

We continue to recommend that Manager's Desktop be expanded to encompass all managers, additional functionality be provided, the use of it encouraged and that management tasks be removed from administrative staff as soon as possible and moved back to departmental managers where they appropriately belong.

COMMENTS OF OFFICIALS

The Department of Finance has actively encouraged all Government departments to roll out Managers Desktop to all of their managers. As reported by the Auditor General, however, this is not a mandatory requirement.

When SAP was rolled-out in 1999, it was clear that the Comptrollership responsibilities could not continue to reside centrally with the Provincial Comptroller's Office. Recognizing this, a Comptrollership Framework was developed and communicated to all departments. Responsibility for Comptrollership became a shared one with all Deputy Ministers and Executive Financial Officers (EFOs) across Government. Every EFO in Government accepts his or her responsibility in this regard. Along with this responsibility comes the authority for EFOs to establish control procedures most appropriate in their environment.

While there is a general acknowledgement that managerial access to SAP would be ideal, the practical fact is that not every manager is comfortable with and willing to accept on-line SAP access as the best control device in his or her situation. As such, there are many program areas in Government that have developed off-line control processes which provide the Executive Financial Officers in those departments with satisfactory assurance that the control environment is appropriate.

We accept as a general goal the eventual rollout of Manager's Desktop to every manager in Government with an acknowledgement that this will have to be accomplished over a protracted timeframe.

We recommended that the Comptroller's Office reinforce the importance to departments of ensuring the delegated authorities are properly represented in SAP or that differences from the delegated authority levels to the levels set in SAP have been approved and documented. We understand that a SAP report has been recently developed to assist departments to assess the SAP authority levels and to ensure compatibility and comparability. Distribution of the report to departments has occurred and was presented at the December 2002 Council of Executive Finance Officers (CEFO) meeting. It is our understanding that it will be the responsibility of each individual department, rather than a central function, to review delegated authorities and have the appropriate documentation.

We continue to recommend that the Comptroller's Office ensure the department's delegated authorities are properly represented in SAP or that differences from those delegated authorities are approved and documented.

COMMENTS OF OFFICIALS

The Department Report on SAP Authority Levels was presented to the Council of Executive Financial Officers in December 2002 with an instruction from the Provincial Comptroller, that each EFO compare the departmental delegation documents to the SAP Authority Levels to ensure compatibility. Where there are differences, departments have been instructed to amend one or the other document or to rationalize the differences. The goal of this process is to ensure that on-line and paper delegations are consistent.

We previously recommended that ESM prepare lists of incompatible functions by department. Each department should be provided with their specific list for review and approval. This process should be updated on a regular basis to ensure that departments are aware of staff members with incompatible functions and that departments have controls to compensate for the increased exposure to risk.

We understand that a SAP report was developed and was distributed to departments in June 2002 through their Executive Finance Officers for their review. It will be the responsibility of each individual department to review incompatible functions on a regular basis and have the appropriate documentation in place. The departments are responsible for documenting any compensating controls should any incompatibilities exist.

The SAP report used the original role matrix of incompatible functions as of April 1, 1999. There has been some review at the Council of Executive Finance Officers and we understand consideration is being given to further reviewing the role matrix for changes since Go-Live.

We continue to recommend that the Comptroller's Office ensure that departments review the incompatible functions on a regular basis and that departments maintain documentation on compensating controls should incompatibilities exist. The matrix should be updated and should document why a combination of functions/roles is incompatible.

COMMENTS OF OFFICIALS

The Role Matrix prepared in April 1999 was reviewed and it was determined that one of the role incompatibilities which existed in the 3.1 version of SAP was resolved when the Upgrade to 4.6b took place in November 2000. As a result of this, the matrix was updated and distributed to all EFOs.

All EFOs have been directed to review the roll assignments within their departments, determine incompatible function roll-outs in accordance with the matrix and either amend the roll assignments or rationalize the *incompatible roll-outs, complete with a description of off-setting off-line controls to ensure a proper control environment. This periodic exercise should ensure that role assignments are appropriate.*

2. Critical Standard Reports

In our review of the initial implementation of SAP and subsequent upgrade to 4.6b we reported that the production and review of critical standard reports had not been established as a required and/or regular activity for some processes. Internal financial information and reporting is at the heart of comptrollership for monitoring the operations and security of the system. Without appropriate reports prepared and monitored, incomplete, inaccurate or unauthorized data may not be detected on a timely basis.

The Comptroller's Office and ESM have made progress during 2001/02 on this concern through various initiatives including Manager's Desktop, training classes for Manager's Desktop to departmental staff and a training class for financial reporting. There are still some reports we consider desirable that are not being produced or for which procedures have not been established and communicated to departments regarding their preparation and use.

We continue to recommend that critical standard reports be identified and their use communicated to departments either through an enhanced MDT or other processes.

COMMENTS OF OFFICIALS

The identification and communication of Critical Standard Reports is a continuous improvement process. All reports identified as critical are included in the Manager's Desktop product. ESM receives on-going advice from its user with respect to such reports and is continuously updating the existing reports and the report tree of available reports on the Manager's Desktop.

Furthermore, ESM has regularly scheduled training classes for Manager's Desktop to which new managers or managers who require a refresh are encouraged to enroll.

3. Business Continuity Plan for Enterprise Systems Management

We previously recommended that a comprehensive business continuity plan be put in place by the Government covering the SAP application. Business continuity plans are necessary to restore critical business activities in the event of a disaster. They specify how alternate facilities and SAP processing capabilities will be provided to continue and restore operations within a planned timeframe. Without a business continuity plan, users may be unable to access SAP.

An effective disaster recovery plan is one aspect of a business continuity plan. During 2002 Enterprise Systems Management (ESM) successfully completed the implementation of a significant step in their Disaster Recovery (DR) Plan. This involved establishing an interim facility to house an alternative computing environment for the SAP system.

Furthermore, the presence of this Disaster Recovery site will minimize disruption of access to the SAP system in the event of an unforeseen event or disaster at the primary site. Our understanding is that operating procedures relating to the DR plan will be updated in the near future. DR procedures should include testing as a normal part of operations.

We understand that an initial Business Continuity Plan has been drafted for ESM but requires further development prior to it being approved and implemented. The Business Continuity Plan would address only what would happen should a business interruption occur at ESM.

We continue to recommend that a well thought out and effective Business Continuity Plan for ESM should be developed, documented and tested to minimize the risk of disruptions caused by unforeseen events.

COMMENTS OF OFFICIALS

ESM received approval for and implemented an off-site interim facility to house an alternate computing environment as the first step in its Disaster Recovery Plan.

While ESM will ensure that the SAP system is available to its users, the user departments will have to develop business continuity plans of their own to ensure they have people available and the related tools access and use the system. The Department of Finance has undertaken such an initiative and ESM is participating as a key player in the development.

New Recommendations

FINANCIAL REPORTING STANDARDS OF THE PROVINCE OF MANITOBA

Manitoba prepares its Summary Financial Statements (the Public Accounts), with a number of notable exceptions, in accordance with Canadian Public Sector Accounting Standards for Senior Governments as recommended by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants. Those exceptions are disclosed in the first note to the financial statements.

Four jurisdictions, Nova Scotia, Ontario, Saskatchewan and British Columbia prepare the Public Accounts in accordance with generally accepted accounting principles (GAAP) for senior governments.

In the preparation of the Estimates of Expenditures and Revenues and the Budget Address, the Province uses the provisions of The Financial Administration Act (Act) as the basis for financial accounting and reporting considerations.

According to this Act, Treasury Board is responsible under Section 5(a) for preparing the estimates and similarly, under Section 5(f), for ensuring accountability of government departments to the Legislature for the delivery of government programs. In addition, Section 9 of this Act states that the Minister of Finance may make regulations and issue directives regarding accounting policies and practices.

Section 65(1) of the Act requires that the Comptroller shall prepare the Public Accounts including the financial statements of the Consolidated Fund in accordance with the accounting policies of the government. However, it does not state that the accounting policies of the government must be in accordance with Canadian Public Sector Accounting Standards for senior governments as recommended by PSAB of the Canadian Institute of Chartered Accountants. The Act does not, however, prohibit the use of Public Sector Accounting Standards for Senior Governments as the basis for financial reporting in the preparation of the Public Accounts, Estimates and Quarterly Reports.

The Province of British Columbia has entrenched in legislation the use of Public Sector Accounting Standards for senior governments as recommended by PSAB of the Canadian Institute of Chartered Accountants, in its Budget Transparency and Accountability Act. This Act creates an accounting policy advisory committee to advise Treasury Board as to the implementation of GAAP for the government reporting entity. Treasury Board is to establish the accounting policies used for preparation of the Main Estimates and the Public Accounts. In addition, Treasury Board is to establish the accounting policies used for the preparation of Quarterly Reports. It is implied that these accounting policies should be GAAP unless otherwise disclosed.

British Columbia's Budget Transparency and Accountability Act, also incorporates that wherever, public sector accounting standards for senior governments are not used either in the Estimates or the Public Accounts, there must be disclosure of any material variances of those policies from GAAP. In addition, with regard to Quarterly Reports, if there is a change in the accounting policies of the government reporting entity which would affect, by a prescribed dollar amount, the forecasted deficit or surplus for the current and next three years, then there must be a public report of it.

We recommend that the Government introduce amendments to The Financial Administration Act to require that Canadian Public Sector Accounting Standards for Senior Governments as recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants, without exceptions, be the basis of accounting for all government financial reporting including the Summary Financial Statements, the Summary Budget and the Quarterly Reports.

COMMENTS OF OFFICIALS

The Government is mindful of and accepts the role of PSAB in recommending accounting standards for senior Governments. As such, the Government continues to develop its accounting policies with due regard to the standards being recommended by that body. However, governments would be negligent in their duties to the public that elected them if they were to accept standards provided by an unelected and electorally unaccountable body without first studying how these changes affect the operations of government. We have made tremendous strides in evolving the government's accounting practices to PSAB standards without the need to legislate it. We will continue to work towards this target.

ROLE OF INTERNAL AUDIT AND CONSULTING SERVICES

The Internal Audit and Consulting Services Branch of the Department of Finance provides internal audit services to management throughout government. All government departments have access to internal audit services through annual plans or for high priority matters.

An effective internal audit function enhances the control environment of the entity.

Internal Audit and Consulting Services was involved initially in the implementation of SAP through participation in the Process and Systems Integrity Team which was responsible for providing expert advice, guidance and integration of all aspects of internal control and system security for the SAP project.

However, Internal Audit and Consulting Services does not have a current role in providing assurance on the effectiveness of controls in SAP.

SAP is an extremely complex system for which Internal Audit and Consulting Services should play a significant role in providing assurance as to the effectiveness of controls at the department levels since Go-Live. Ongoing involvement would give Internal Audit and Consulting Services the opportunity to add value to the reliability and accuracy of this high priority government-wide system on a continuous basis.

We recommend that Internal Audit and Consulting Services take a lead role on an annual basis to review and test controls in departments as they relate to SAP.

COMMENTS OF OFFICIALS

Internal Audit and Consulting Services is taking a growing role, on an annual basis, in reviewing and testing controls which departments have implemented as they relate to SAP. For example, this Branch has done reviews of approval practices related to attendance reporting, accounts payable processes, delegation of signing authority comparisons between SAP and formal delegations and timekeeping practices. Recent training and experience with the system should facilitate more involvement in the future.

REPORTING STRUCTURE HIERARCHY - COMPTROLLER

The Financial Administration Act (Act) in Section 13(2) states:

Comptroller's responsibilities
13(2) In addition to matters specifically assigned to him or her under this or any other or any other Act of the Legislature, the Comptroller is responsible for

a) maintaining the central accounts of the government to show the current state of the Consolidated Fund and the financial condition of the government;

b) ensuring that procedures are in effect for the recording of public money payable to the Minister of Finance and that authority exists for the recording and payment of public money;

c) preparing the public accounts and any financial statements and reports required by the Minister of Finance or Treasury Board;
d) maintaining an internal audit system in government;
e) evaluating accounting and financial management systems throughout the government;
f) performing other duties assigned to him or her by the Minister of Finance or Treasury Board or under this or any other Act of the Legislature.

Section 13(2) sets out the responsibilities of the Comptroller of the Province of Manitoba. Those responsibilities include evaluating accounting and financial management systems throughout government. In our view, the reporting structure within the Department of Finance is incompatible with that responsibility as it does not require the respective Division heads to report to the Comptroller.

Section 13(3) states:

Powers of Comptroller
13(3) The Comptroller
a) shall at all times have access to all government departments and to their records;
b) may issue directives about
    i) the method by which the accounts of the government are kept,
    ii) the reporting of financial matters, and
    iii) having regard to the responsibilities in financial matters of senior officials of government departments, how the responsibilities of the Comptroller are to be discharged by those officials;
c) may require from any officer or employee of the government the information and explanations necessary for the performance of the Comptroller's responsibilities;
d) may examine and report on the financial and accounting operations of a government department;
e) may examine any person under oath with respect to any matter within the responsibilities of the Comptroller;
f) may provide accounting and other services in connection with the financial management of a government department;
g) may station a person employed by the Department of Finance in any government department when the Comptroller considers it necessary to discharge his or her responsibilities;
h) may, in relation to
    i) a government agency for any part of whose expenditures provision is made in an appropriation,
    ii) a government agency specified by regulation or directive of the Minister of Finance under clause 9(b), or
    iii) any other duties assigned to him or under clause (2)(f),

exercise any of the powers that he or she could have exercised in relation to the government under this section.

Section 13(3) permits the Comptroller to issue directives on a range of matters including the responsibilities in financial matters of senior officials of government departments and how the responsibilities of the Comptroller are to be discharged by those officials.

We understand that the Province is currently finalizing a Comptrollership model for use in Manitoba that further clarifies the roles, responsibilities and relationships of senior officials of Government departments with the Comptroller's Office.

The function of the position of Comptroller as outlined in the Act is restricted by the existing organization structure. Because, while the Act assigns the responsibility to the Comptroller to issue directives on a range of matters including the responsibilities in financial matters of senior officials of government departments and how the responsibilities of the Comptroller are to be discharged by those officials, the position of Comptroller according to the existing organization structure lacks the commensurate level of authority over those senior officials. At present, the Assistant Deputy Ministers of Finance in charge of the respective Divisions report to the Deputy Minister.

We recommend the Government revisit the organizational structure of the Department of Finance to reflect the function of the role of Comptroller of the Province as identified in The Financial Administration Act.

COMMENTS OF OFFICIALS

The Government is mindful of the responsibilities and powers of the Comptroller as contained in the Financial Administration Act.

We do not concur with the statement that the position of the Comptroller is restricted by the existing organization structure. Nor do we accept the statement that the organization structure lacks the commensurate level of authority over senior officials in departments. That authority is clearly provided by the Act itself.

All financial functionaries in the Manitoba government are functionally responsible to the Comptroller. That includes officials in the department of Finance. It is not practical for the Comptroller to have direct line responsibility for all of these officials.

USING FINANCIAL INDICATORS IN THE ANNUAL REPORT

In the annual reports for the years ended March 31, 2001 and 2002 the Government began including financial indicators for the Special Purpose (Operating Fund) and Summary Financial Statements. We have promoted greater use of financial indicators for several years.

Appropriate financial indicators provide useful information on the financial condition of the Government. The Government can demonstrate their commitment to effective fiscal management by generating clear accountability information regarding the Government's financial condition. To put the information into an appropriate context, it should be compared against the Government's overall economic and financial environment.

In September 1997, the Canadian Institute of Chartered Accountants (CICA) released a formal publication entitled, *Indicators of Government Financial Condition*. This publication was released as a research report and it addresses directly the need to understand the financial health of governments. The CICA suggests ten financial indicators for consideration when assessing the sustainability, flexibility and vulnerability. The CICA offers the following definitions to help guide this initiative:

> *"The financial condition of a government is its financial health as measured by sustainability, vulnerability, and flexibility, looked at in the context of the overall economic and financial environment. These terms are defined as follows:*
>
> - *Sustainability: the degree to which a government can maintain existing programs and meet existing creditor requirements without increasing the debt burden on the economy.*
> - *Flexibility: the degree to which a government can increase its financial resources to respond to rising commitments, by either expanding its revenues or increasing its debt burden.*
> - *Vulnerability: the degree to which a government becomes dependent on, and therefore vulnerable to, sources of funding outside its control or influence, both domestic and international."*

Prior to the year ended March 31, 2001, our position was that an annual report for government should provide information that reflects long-term trends for several key indicators regarding the sustainability, flexibility and vulnerability of government programming in the context of debt capacity in a credible, understandable and useful manner. Given this position, we believed several of the relevant indicators suggested by the CICA should be included in an annual report on government operations, which is focused on the summary financial statements.

We recommended the Government adopt the concepts suggested in the CICA research report on using financial indicators for disclosure in an annual report for government. More specifically, we recommended the government:

- Use information from the summary financial statements to develop the ratios selected for disclosure;
- Focus disclosure on only the most significant indicators; and
- Make use of graphical presentations to facilitate the comprehension of readers.

Starting for the year ended March 31, 2001, the Government has provided annual reports which include five of the ten financial indicators suggested by the CICA research report. The five financial indicators disclosed by the Government cover the measurement of sustainability, flexibility and vulnerability as follows:

Sustainability
Net Debt to Provincial GDP

Flexibility
Debt Costs to Revenue
Own Source Revenue to Provincial GDP

Vulnerability
Federal Transfers to Own-Source Revenues
Foreign Debt to Net Debt

The remaining five indicators recommended by the CICA that were not included by the Government are:

Deficit/Surplus to GDP
This is an indicator for assessing sustainability by assessing how successful a government has been in stabilizing the Net Debt-to-GDP ratio. Two ratios are associated with this indicator. The first is the actual observable ratio, while the second is a stabilizing ratio that, given a particular rate of economic growth, would stabilize the Net Debt-to-GDP ratio. A comparison of the two ratios indicates how successful a government has been in balancing its expenditures and revenues in terms of stabilizing its Net Debt-to-GDP ratio.

Changes in Physical Capital Stock
This is an indicator for assessing flexibility by showing the impact of changes to the useful life of government held physical capital stock on annual financial performance, and overall financial condition of a government. A deteriorating life expectancy of capital stock can have an impact on financial condition of a government because of the impending future costs of repair or replacement. Such future costs can impair the flexibility of a government. The physical capital stock should include all tangible capital assets currently recognized on the financial statements as well as other expenditures including infrastructure such as highways and bridges for which reporting policies are currently being developed.

Foreign Held Government Debt to Government Net Debt
This is a indicator for assessing vulnerability by indicating the percentage of net debt that is held by foreigners regardless of the currency. Foreign held debt takes on a certain amount of risk that makes it vulnerable in two ways. First, if the debt is held in foreign currency, the government is exposed if the Canadian dollar falls in value relative to the currency of the debt. Second, regardless of the currency of debt, foreign investors may be more likely to unload Canadian debt than domestic investors in the event of Canadian economic or political uncertainties.

Current Account Balance-to-GDP and Total External Debt to GDP
These are two economy-wide indicators that deal with Canada's international indebtedness and provide context to the province's vulnerability to forces generally outside its control. The CICA recommends including these indicators because they are important enough that citizens of each province ought to be aware of the significance of Canada's foreign indebtedness and its impact on their respective governments.

As recommended, the Government has used information from the Summary Financial Statements to develop the ratios and has disclosed the most significant financial indicators for the Summary Financial Statements. Also, consistent with our recommendation, the Government made use of graphical presentations to facilitate the readers' comprehension. However, we feel the Government could further increase the usefulness of the information provided by including the remaining five indicators recommended by the CICA.

We commend the Government for disclosing information for several key indicators regarding the sustainability, flexibility and vulnerability of government programming in the context of debt capacity in a credible, understandable and useful manner.

In addition, the CICA has recently released its Management Discussion and Analysis: Guidance on Preparation and Disclosure Report. The document recommends that Management Discussion and Analysis (MD&A) should include a detailed discussion of an organization's vision, strategy, and business risks in addition to the more traditional historical and prospective analysis of financial results that is currently being provided by management. MD&A should also focus on the performance measures, the capital requirements and resources needed to achieve planned results and the risks facing the organization in achieving those planned results. The guidance recommends that MD&A be more forward looking emphasizing performance and prospects enabling the reader to view the organization through management's eyes. This analysis it is suggested may also be included with quarterly reports.

We recommend the Government revisit disclosing the remaining five indicators thereby providing all the financial indicators recommended by the 1997 CICA Research Study.

We recommend that the Government review the CICA's recently released Management Discussion and Analysis: Guidance on Preparation and Disclosure Report to enhance the content of the Province's Annual and Quarterly Reports.

COMMENTS OF OFFICIALS

The five indicators initially adopted were deemed to be the most relevant to Manitoba. They were chosen based on three main criteria: availability of data, relevance to Manitoba, and practices in other provincial jurisdictions. It should be noted that Manitoba also added an indicator, called Net Debt Per Capita, which is not one the CICA's recommended indicators but one recommended by the report from Deloitte and Touche in 1999. We will continue to review the remaining indicators for relevancy in Manitoba and consider the propriety of their inclusion.

We will certainly review the CICA's report on Management Discussion and Analysis- Guidance on Preparation and Disclosure. However, the Government is also mindful of the PSAB project mentioned later on in this report dealing with Financial Statement Discussion and Analysis. We anticipate that document will provide more relevant guidance to governments.

FOREIGN EXCHANGE CLEARING ACCOUNT

Over the 2002 fiscal year, we noted that the unreconciled balance of the foreign exchange clearing general ledger account has increased significantly with a corresponding increase in the balance of the Canadian dollar foreign exchange translation of the US dollar bank accounts in comparison to the previous two years. The balance of the US dollar bank accounts is being overstated. This is an internal accounting issue and overall, foreign exchange translation was properly reflected in the March 31, 2002 Public Accounts.

The related offsetting account is the foreign exchange clearing account. This account should be cleared to a nil balance each month. As all other foreign currency denominated balances have been translated to Canadian dollars at year-end, the foreign exchange clearing account balance primarily reflects the net balance of the entries related to the translation of the transactions in the US dollar bank accounts. It is correspondingly overstated.

The fundamental problem appears to be a SAP (programming related) one along with the absence of designated staff to ensure that the foreign exchange clearing general ledger account is cleared monthly.

We recommend that the Province review the SAP programming related to the accounting entries in those general ledger accounts to eliminate the overstatement of balances. In addition, we also recommend the US dollar bank accounts at year-end be adjusted by journal entry to reflect year-end foreign exchange rates instead of average exchange rates. Finally, we recommend that the Comptroller's Office designate staff to be responsible for ensuring that the balance in the foreign exchange clearing general ledger account is cleared monthly.

COMMENTS OF OFFICIALS

We recognize SAP's limitations for the handling of Foreign Exchange Clearing Accounts in relation to Manitoba's environment. Mindful of this shortcoming, procedures are being established to clear these accounts on a regular basis as recommended by the Auditor General.

CREATION OF A PENSION ASSETS FUND

A 2002 fiscal year Order-in-Council (OIC) authorized the transfer of $75 million from the Debt Retirement Fund to the Operating Fund in accordance with Section 8(6) of The Balanced Budget, Debt Repayment, and Taxpayer Accountability Act (Act). There was a similar OIC in 2001.

Therefore, in accordance with the Act, the $75 million should be shown as transferred back to the Operating Fund. However, the funds are not reflected in the March 31, 2002 Operating Fund Financial Statements as a reduction in the net accumulated deficit of the Operating Fund. Those assets are instead disclosed as funds held in trust. Because the Operating Fund balance sheet does not reflect the pension liability, the Government considered it inappropriate to show pension assets on the Special Purpose (Operating Fund) Financial Statements.

The balance of the monies designated for the retirement of the pension liability as at March 31, 2002 amounted to approximately $107 million. In our view, that balance is becoming too significant, even given the special purpose nature of the Operating Fund Financial Statements, to be reported as a trust asset and effectively excluded from the Accumulated Fund Balances.

In addition, in the Summary Financial Statements, the pension assets are designated assets and in accordance with public sector accounting standards should be only disclosed as such in the notes to the financial statements. The assets should be disclosed by classification of assets, for example, as portfolio investments. That accounting treatment would eliminate the reference to pension assets on the balance sheet.

We recommend that the Government introduce an amendment to The Balanced Budget, Debt Repayment, and Taxpayer Accountability Act to create a separate fund – Pension Assets Fund. This Fund would be used to reflect the assets designated for the retirement of the pension liability. The funds transferred from the Debt Retirement Fund in accordance with Section 8(6) would therefore be to the Pension Assets Fund instead of to the Operating Fund and thereby be properly included in the Province's total assets and accumulated (deficits) surpluses in the Special Purpose (Operating Fund) Financial Statements.

COMMENTS OF OFFICIALS

We will investigate this proposal.

FEDERAL ACCOUNTING ERROR

Our Involvement with the Audit of the Canada Customs and Revenue Agency Errors

Our involvement was related to the reports issued by the Office of the Auditor General of Canada (OAG Canada) to the federal Minister of Finance relating to the omission of the provincial portion of mutual fund capital gains refunds from the Federal/Provincial Tax Sharing Statements prepared by the Canada Customs and Revenue Agency (CCRA). The OAG Canada had been requested to undertake audit procedures to verify the amount of the omission errors, to determine whether the CCRA's procedures applicable to capital gains refunds had been rectified; and to determine whether other additional material errors could have occurred.

To provide additional assurance to the provinces regarding the work of the OAG Canada, a working group comprising members of the Canadian Council of Legislative Auditors (CCOLA) was established to review the OAG Canada's proposed audit plan; to provide input on issues arising during the audit; and to assess the results of the audit work done. The working group consisted of senior representatives from five provincial legislative audit offices (Ontario, Manitoba, British Columbia, Alberta and Quebec). In addition, we (Office of the Auditor General of Manitoba) met periodically with the Manitoba Comptroller and the Manitoba Assistant Deputy Minister of Finance - Federal/Provincial Relations to obtain their input on issues of concern to them.

OVERPAYMENT AMOUNTS

In January 2002, the federal Minister of National Revenue announced that significant overpayments amounting to $3.3 billion had been made to four provinces. The estimated overpayments for the affected provinces were as follows:

	$ million
Ontario	$2,800
Manitoba	$ 408
British Columbia	$ 121
Alberta	$ 4

CCOLA WORKING GROUP

To provide additional assurance to the provinces, the CCOLA working group undertook the following procedures:

- March 2002: Met with senior staff from the OAG Canada to review their proposed audit methodology and draft engagement letter to CCRA and the federal Department of Finance. A number of suggestions were made and incorporated by the OAG into their audit approach and into the engagement letter with one exception. That being the request that the year 2000 also be included. The final decision was that the 2000 year would not be included in the request as the federal Department of Finance considered that taxation year to be still 'open'.

- March 2002: While at the OAG Canada, the working group also met with four senior officials from CCRA to discuss in detail how the error arose and how it was detected. The working group also used this opportunity to discuss certain provincial concerns, such as how unapplied tax is calculated, and improving provincial access to CCRA personal income tax related data.
- Mid-March to mid-May 2002: The OAG Canada kept us apprised on an ongoing basis as the audit work progressed and solicited our input when significant issues arose during the audit.
- Mid-May: The CCOLA working group met in Ottawa again to review the results of the OAG Canada's work. Their review included a detailed walk-though of the key audit procedures including sample testing of selected items back to the supporting electronic databases. At the request of the working group, the OAG Canada also conducted several additional procedures, such as verifying that the capital gains trust amounts in question were, in fact, originally reflected in the Tax Collection Agreement (TCA) "assessed" amounts to ensure the related tax was paid to Manitoba in the first place.
- Early June: Our office reviewed the draft Auditor's Report and the three Accountant's Reports.

OVERALL OBSERVATIONS

Based on the work performed by the CCOLA working group in conjunction with the audit procedures undertaken by the OAG Canada, we confirmed that the Auditor's Report dated May 31, 2002 with respect to the 1997-1999 tax can be relied upon by the Manitoba Department of Finance. We were also satisfied with the specified procedures performed by the OAG Canada in connection with the three Accountant's Reports relating to the 1993-1996 taxation years, the lack of financial information relating to pre-1993 year, and the revision of CCRA's procedures applicable to mutual fund capital gains refunds. It is our understanding that no other material error has occurred.

EXPLANATION OF HOW THE MUTUAL FUND CAPITAL GAINS REFUND ERROR AROSE

Mutual fund trusts generally pay little or no income tax. While they often have significant taxable capital gains on the sale of securities, these gains are attributable back to the individual unit holders of the funds. The mutual fund issues T5 slips for the gains to the unit holders who must then report the capital gains on their individual tax returns. While the mutual fund trusts calculate tax payable on capital gains, they are entitled to an offsetting capital gains refund for the T5 slips issued. In almost all cases, the tax on the gains is completely offset by the refund amounts with the net result being that little or no tax is paid by the trust.

Both the federal (line 81) and the provincial (line 82) portion of the tax on the capital gains are reflected as separate line items on the Mutual Fund Trust T3 tax return. However, the offsetting refund amount is only reflected in total (line 89) with this total being carried forward from Schedule T184 - Capital Gains Refund for a Mutual Fund Trust. The federal and provincial amounts are separately calculated and shown on this schedule, but the individual amounts are not carried forward to the T3 return.

Both the federal and the provincial taxes payable from lines 81 and 82 were input into CCRA's general ledger system and recorded to the appropriate federal and provincial tax accounts. Only the balances in these accounts are reflected on the annual tax collection agreement (TCA) Statement of Income and Capital taxes Payable to the Provinces and Territories. The total offsetting refund from line 89 was input into CCRA's ledger and posted to a federal-only account and therefore was not reflected.

Accordingly, the amounts posted from line 82 are ultimately reflected as provincial taxes assessed on the TCA Statement and get paid to the provinces by the federal government. However, there is no offsetting provincial credit (this would have been included in the Reductions, Credits and Rebates line on the TCA Statement) for the provincial portion of the capital gains refund as there was no ledger account ever established for the provincial portion of the refund.

It is likely that this error has been in existence since mutual funds first began 'paying' capital gains tax in the 1970s. However, it has only been in the last ten years that the amounts have become significant, both because of the dramatic growth in mutual fund assets in the 1990s and more recently, because of the significant stock market gains in the 1996-1999 period.

Fortunately for CCRA, although the federal and provincial portions of the capital gains refund amounts were never recorded in their general ledger, they were recorded in a subsidiary computer system called the Automated Trust System (ATS). The ATS database has detailed records reflecting all key line items from both the T3 and the supporting T184 Schedule that every mutual fund trust must file on an annual basis going back to 1993. This was what CCRA used to determine the amount of the overpayments by province by year.

HOW THE ERROR WAS DETECTED

Senior officials from CCRA advised the CCOLA working group that they uncovered the error primarily as a result of a major re-engineering of the CCRA's general ledger systems. This general ledger is an older legacy system written in COBOL and CCRA was implementing a new revenue ledger system based largely on an SAP ERP system that would allow full accrual based accounting.

The programmers were looking into how the ATS subsidiary system could automatically update the new revenue ledger with the intent of ensuring that all mutual fund trust tax data was automatically entered only once and would automatically update all general ledger accounts in the new system from that point on. Their work confirmed that the ATS system was not being used to update the general ledger system and raised the possible issue of the capital gains refunds only being posted as one number to the general ledger.

It apparently took a few months before the seriousness of the potential error was recognized and at this point CCRA's internal auditors were asked to conduct an in-depth investigation. They reported back to senior management in late 2001 that there was, in fact, a major error and reported on the magnitude of the error. The OAG Canada was advised on January 9, 2002, and they then conducted preliminary work to confirm internal audit's findings. Shortly after this the provinces were advised of the overpayments that had been made.

CROWN ORGANIZATIONS AND GOVERNMENT ENTERPRISES

Relationship with Private Sector Auditors

NEW AUDITOR GENERAL ACT

The Auditor General is responsible for ensuring the accounts of the government are fairly presented. In addition to this, the Auditor General has responsibilities for the auditing of the operations of government entities.

As many of the government entities are audited by private sector auditors, the Auditor General has to be able rely on the work of these external auditors. Accordingly, the new Auditor General Act (Act) clarifies the authority of the Auditor General over the external auditors and the responsibilities of the external auditors with respect to this relationship when they are auditing government entities.

Section 13 of the Act authorizes the Auditor General to rely on the report of an external auditor of a government entity in order to fulfil the Auditor General's responsibilities as the auditor of the government's accounts.

In order for the Auditor General to rely on the work of the external auditor, he or she has to ensure that the work of the external auditor will satisfy the Auditor General's requirements under the Act and also generally accepted auditing standards under Section 6930 of the CICA Assurance Handbook entitled *"Reliance on Another Auditor"*. Specifically the Auditor General has be satisfied that the audit is properly planned, executed, completed and reported.

Planning

The Auditor General may require the external auditor of government entities to provide the Auditor General with a description of the proposed scope of the audit before the audit is begun. The Auditor General may then require changes to be made in the scope of the audit. **[Section 12(1) of the Act]**

Execution

Before an external auditor issues an audit opinion on the financial statements of a government entity, the Auditor General may require the external auditor conduct additional examinations relating to the financial statements. **[Section 12(2)(b) of the Act]**

Completion

Before an external auditor issues an audit opinion on the financial statements of a government entity, the Auditor General may require the external auditor to provide the Auditor General with a copy of the proposed audit opinion, the draft financial statements, and any recommendations arising out of the audit of the financial statements. **[Section 12(2)(a) of the Act]**

The Auditor General may require an external auditor to give the Auditor General a copy of the audit working papers. **[Section 12(3) of the Act]**

Reporting

As soon as an audit is completed, an external auditor must give the Auditor General a copy of the audit opinion on the financial statements of a government organization and any recommendations arising out of the audit of the financial statements. **[Section 12(4) of the Act]**

Report to the Legislative Assembly

The Auditor General has the authority to report to the Legislative on any matter he or she may wish attention to and make recommendations regarding any audit conducted by an external auditor under Section 12. **[Section 10(3) of the Act]**

REVIEW OF DRAFT FINANCIAL STATEMENTS AND AUDITORS' REPORTS

The new Auditor General Act (Act) was proclaimed on May 6, 2002 and came into full force and effect on May 1, 2002.

The Office of the Auditor General issued letters to the external auditors of government entities requiring them to comply with Section 12(2) and 12(4) of the Act. Specifically, the external auditors were to provide draft audit opinions and financial statements to our Office prior to finalizing the audit. The auditors were also directed to provide signed audit opinions and management letters after the audit was completed. Our Office received and reviewed the finalized statements for these audits. Draft financial statements were received for 28 audits.

The timing of the proclamation and the communication to the auditors was such that 8 of the audited financial statements had been finalized prior to the communication.

We provided formalized comments on 11 draft financial statements where we provided either disclosure or accounting treatment recommendations. In 6 cases, financial statements were amended. In 5 cases, statements for the subsequent year will reflect the recommendations. In these cases, we will follow this up in our review of the draft financial statements for 2003.

The remaining 17 draft financial statement reviews did not require any recommendations to made for accounting or disclosure.

Our Office will be meeting with private sector auditors in December 2002 in preparation for next year's communication process.

Who Conducts the Audits

The Auditor General's Office audits many of the crown organizations and government enterprises included in the Government Reporting Entity, and many others are audited by private sector auditors appointed by the Government. Consequently, we place reliance on the audit work and opinions of the private sector auditors in forming the audit opinion on the Summary Financial Statements. We obtain written representations from the private sector auditors regarding their independence and compliance with generally accepted auditing standards. We also perform additional auditing procedures, as we consider necessary, to fulfil our broader reporting responsibilities to the Legislative Assembly.

Exhibit E lists those government entities audited by the Auditor General's Office and those audited by private sector auditors.

Manitoba Housing and Renewal Corporation

In our December 2002 Value-for-Money Audit Report on the Public Housing Program, we made several recommendations to help ensure that funds allocated to maintenance, including modernization and improvement, are used as effectively as possible. Our VFM Audit looked at how funds were being expended and not at the source of these funds.

In conducting our audit of Manitoba Housing and Renewal Corporation (MHRC) we noted that in 2001/02, MHRC significantly drew down its reserve for Modernization and Improvement (M&I) in order to fund a large portion of its 2001/02 M&I program. We further noted that while the Legislature had appropriated funds for M&I, as set out in the Estimates of Expenditure, a large amount of these funds was not expended.

A documented policy to guide the use of the M&I reserve fund was not in place during the 2001/02 audit of MHRC. However, we understand that when the fund was initially established, it was management's intention that the funds be used for significant, non-recurring projects throughout the Province. We found that funds drawn from the reserve in 2001/02 were not specifically linked to non-recurring M&I projects.

We recommend that MHRC develop a policy regarding the use of the M&I Reserve Fund and a multi-year plan for the use of the fund. We further recommend that the Board of MHRC approve the policy and the plan.

COMMENTS OF OFFICIALS

The draw down of the M&I reserve in 2001/02 was appropriately used to fund major capital improvements.

The M&I reserve was approved in 1996/97 to recognize that there had been a shortfall in capital funding over a period of years, and accordingly, major capital improvements had been deferred. In 1997, MHRC developed a ten year M&I planning process, which scheduled major capital improvements, including the deferred projects. During the summer of 2002, MHRC developed a revised five year planning process to be more responsive to changes in capital projects and priorities.

The department agrees with the Auditors' recommendation to document its policy and plan for the draw down of the M&I reserve. The new policy will be approved by the Board of Directors of MHRC.

COMPLIANCE WITH AUTHORITY AND AGREEMENTS ISSUES

Compliance with Authority and Agreements Issues

During the audits of various organizations in the past year, we found certain cases of non-compliance with the respective entity's governing legislation or contractual agreements. They were as follows:

MANITOBA HOSPITAL CAPITAL FINANCING AUTHORITY FOR FISCAL YEAR ENDED MARCH 31, 2002

Section 3(2) of the Hospital Capital Financing Authority Act (Act) requires that the Manitoba Hospital Capital Financing Authority (Authority) approve the issuance of "securities" by an operator of a hospital to finance capital expenditures prior to the issuance of the securities.

In the course of the audit, we found that the Authority for the past fiscal year approved all the issuance of securities at one meeting after the fact. In our opinion, that approval process was not in compliance with the Act. Upon discussion with management, it was determined that management would obtain advice from legal counsel as to application of Section 3(2) with regard to the timing of the approvals.

Management's legal counsel confirmed that the Authority's approval must be in advance of the issuance of the security and consequently, management agreed that hereafter, the Authority will approve all securities issued prior to their issuance.

GOVERNMENT OF MANITOBA TRANSFERS TO THE TEACHERS' RETIREMENT ALLOWANCES FUND FOR THE YEAR ENDED DECEMBER 31, 2001

We reviewed the investment management agreement between the Province and the Teachers' Retirement Allowances Fund (TRAF) Board regarding the Board's investment management of trust assets related to the Province's Unfunded Pension Liability Fund.

The Province in accordance with The Balanced Budget, Debt Repayment and Taxpayer Accountability Act (Act) established the Unfunded Pension Liability Fund for the purpose of accumulating funds for the eventual retirement of the outstanding unfunded pension obligation.

According to Section 2.01 of the investment management agreement, the Province shall estimate and inform the Board of the allocation of funding between TRAF and the Civil Service Superannuation Fund (CSSF) as well as the allocation of contributions between new employees and general contribution category for that year. In addition, those estimated contributions were to be provided to TRAF by October 1 for the current fiscal year.

We found that TRAF did not receive the monies on October 1, 2001 related to the 2002 fiscal year allocation. Subsequent to the completion of our audit, we learned that TRAF received the monies related to the 2002 fiscal year allocation on March 28, 2002.

We understand that pursuant to Section 8(6.2) of the Act, a Debt Retirement Fund Allocation Committee (Committee) was to be established and that the Committee was to determine the allocation (of the debt retirement) between the general purpose debt and the pension liability.

The members of the Committee were only appointed January 30, 2002. No allocation could be made between CSSF and TRAF in accordance with Section 2.01 of investment management agreement until the allocation between the general purpose debt and the pension liability was determined by the Committee. Hence, TRAF could not receive any monies on October 1, 2001.

While we appreciate that the Committee must make its determination before any monies may be transferred to TRAF, the Province did not fulfill the spirit of the investment management agreement with TRAF when the allocations were not determined prior to October 1 of the 2002 fiscal year.

We recommended that this matter be reviewed in order to either expedite the Committee's allocation process for the 2003 fiscal year so that the funds may be transferred by October 1, 2002 or amend the terms of the investment management agreement with TRAF.

We understand that the Committee has expedited its allocation process for the 2003 fiscal year and that the funds were transferred to the respective pensions plans by October 1, 2002 in accordance with the terms of the investment management agreement.

COMMENTS OF OFFICIALS

This issue is not one related to compliance with any legislative provisions. It is related to an agreement between government and TRAF to manage trust assets, and was developed and signed in good faith by both parties. While it is true that the investment date in the agreement was not met in the inaugural year due to delays in forming the Debt Retirement Fund Allocation Committee, this in no way caused any harm to TRAF. TRAF officials were kept well informed as to the progress during this time and at no time expressed any concern with the delay. Once appointed, the Committee met and made decisions expeditiously. Further, a process was put in place to ensure that the timings contained in the agreement would be met in subsequent years.

This Agreement is between the Government and TRAF. If neither party had difficulty in the variances of the Agreement due to the extenuating circumstances, we do not believe there is any audit issue.

Use of the words "not fulfilling the spirit of the investment management agreement with TRAF" is an exaggeration. In fact, the Government kept TRAF informed throughout of the progress in relation to the allocation. TRAF acknowledged and accepted the circumstances. TRAF has not been harmed in any way.

HEALTH REPORT CARD

Audit of Manitoba's Health Indicators Report

On September 11, 2000, the First Ministers of Canada in their Meeting Communiqué on Health agreed to:

> *"Provide comprehensive and regular public reporting by each government on the health programs and services they deliver, on health system performance and on progress towards the priorities set forth....and collaborate on the development of a comprehensive framework using jointly agreed comparable indicators such that each government will begin reporting by September, 2002."*

Additionally, the First Ministers, in their communiqué agreed to:

> *"allow each government to determine appropriate third party verification for itself to certify and analyze this information for the benefit of Canadians."*

Each of the jurisdictions of Canada (Federal, Provincial and Territorial) requested that their legislative auditors provide verification for their respective reports.

The Deputy Minister of Health requested that our office provide the required third party verification for Manitoba's Report in the form of an Audit Opinion. This engagement was the first time that our office was asked by government to audit a non-financial performance report, and for that reason was a significant new audit engagement for our office.

The Department of Health worked with its counterparts in other jurisdictions through the Performance Indicators Reporting Committee (PIRC), a sub-committee of the Conference of the Deputy Ministers of Health. PIRC defined a framework of 67 health indicators in 14 broad areas of health measurement, which were approved by the Conference of Deputy Ministers.

The legislative auditors of Canada worked together through the Health Indicators Study Group (HISG), a sub-committee of the Canadian Council of Legislative Auditors (CCOLA), to develop common audit approaches and solutions to common audit issues.

Although the legislative auditors worked together to establish common audit approaches, some jurisdictions chose to engage their legislative auditors to provide third party assurance for their reports in the form of *specified auditing procedures*, in which case the specified procedures performed at the request and direction of the report preparer, do not constitute an audit, or provide an audit level assurance. We were pleased to have been engaged by the Department of Health to perform an audit of the Health Indicators Report. In our view, this is the preferable approach because it gives higher level assurance to users of the indicators regarding the fairness of the indicators in accordance with the definitions approved by the Conference of Deputy Ministers.

For further information regarding the nature of the differences between audit level assurance, and specified procedures, and what jurisdictions received which level of assurance, see Annex 2 of our audit opinion for the Health Indicators Report in Exhibit F.

Of the 67 Health Indicators reported, the databases for many of the indicators originated from national databases maintained by Statistics Canada, the Canadian Institute for Health Information (CIHI) and Health Canada. In order to increase the efficiency of our audit efforts, the legislative auditors from each jurisdiction each relied on the audit work of a single audit team for these databases. Indicators originating from Statistics Canada and Health Canada were audited by the Office of the Auditor General of Canada. Indicators originating from CIHI were audited by a team of auditors from three jurisdictions led by the Auditor General of British Columbia.

Our audit was completed and dated September 23, 2002. Our opinion is included as part of the Manitoba Health Indicators Report of September 2002. We understand that these reports are to be produced by all jurisdictions in the future on a bi-annual basis, and that the next report will be issued in November of 2004.

Our audit was carried out in accordance with the criteria disclosed in Annex 1 of our audit opinion (see Exhibit F). Limitations in data systems maintained by Manitoba Health were adequately described in the report. It should be noted that the completeness and accuracy of the source data (such as diagnosis by health professionals, and original reporting of such information in the health records) was not verified in the process of preparing the report. We were unable to determine whether any adjustments to reported Manitoba health indicators, might have been necessary had the source data limitations not been present.

As a result of our audit, we were able to issue an unqualified opinion on 35 of the indicators. We reserved our opinion on 21 indicators. These reservations of our opinion were a result of reservations reported relating to 8 Health Canada indicators, as audited by the Auditor General of Canada, 7 CIHI indicators, as audited by the Auditor General of British Columbia, and 6 Manitoba Health indicators audited by our office. Additionally, Manitoba Health did report on four indicators due to a lack of information availability, and did not report on seven indicators because they were optional and not required under the PIRC agreement.

FINDINGS RELATED TO HEALTH INDICATOR REPORTING

Health Canada Data Reservation

National data for the following eight Manitoba health indicators were drawn from the relevant Health Canada databases:

- Invasive Meningococcal Disease Incidence Rate;
- Measles Incidence Rate;
- Haemophilus Influenzae b (Invasive) Disease Incidence Rate for Children;
- Prevalence of Diabetes;
- Tuberculosis Incidence Rate;
- Reported HIV Diagnosis;
- Verotoxogenic E. Coli Incidence Rate; and
- Chlamydia Incidence Rate.

Observation

The Auditor General of Canada in their audit noted that participation in the national databases is voluntary, and there is a lack of federal/provincial/territorial agreements on data sharing, data standards and data definitions. The quality assurance processes for these databases are inadequate to ensure the accuracy of the data. Health Canada states in the federal health indicators report that improvements are required on data quality.

These databases were audited by the Auditor General of Canada and we relied on the work of the Auditor General of Canada in forming our reservation of our opinion for these systems.

Additionally we conducted our own review of these databases within the Manitoba Department of Health reporting system through a cooperative agreement with the Internal Audit Department of the Province of Manitoba.

Discussions with Provincial staff involved in the process indicated it is difficult to ensure that all incidences of a particular disease have been reported. As a result, there is concern that some of the statistics reported for the diseases included in the scope of our review may not be complete, accurate, and timely. Continued improvement of quality assurance processes to ensure complete, accurate and timely reporting is recommended.

We recommend that procedures be implemented to provide greater assurance that surveillance information used for performance indicator reporting purposes is complete and accurate.

The Department should consider the following enhancements to their surveillance process:

a) A reconciliation process should be put in place between the Communicable Disease Control (CDC) unit and the RHAs to ensure that all communicable diseases are reported.
b) The use of other Manitoba Health systems to verify information on reportable diseases should be explored.
c) The Diabetes and Chronic Diseases Unit should explore the use of other health-based systems, such as Pharmacare and the Health Sciences Center (HSC) Lab, to identify cases of diabetes.
d) Comparisons should be done on a periodic basis of the information by disease included in the databases of the CDC, the Cadham Provincial Lab (CPL), the Diabetes and Chronic Diseases Unit and the Tuberculosis Registry Unit to ensure consistency and accuracy of information reported.
e) CDC staff should develop exception reports to monitor changes to the database to ensure that the integrity of the data is maintained.
f) The completeness and accuracy of surveillance information should be verified on a periodic basis.

Additionally, the Auditor General of Canada, as part of their audit of Health Canada, will be providing a management letter to the Minister of Health for Canada detailing their observations and recommendations relating to National data for the these eight health indicators.

We recommend that the Manitoba Department of Health coordinate with Health Canada in addressing the identified observations on a joint basis.

COMMENTS OF OFFICIALS

There is a statutory requirement in Manitoba under The Public Health Act, Diseases and Dead Bodies Regulation for physicians and/or laboratories (not Regional Health Authorities) to report identified communicable diseases. Systems are in place for laboratories, especially the Cadham Provincial Public Health Laboratory to report confirmed cases of reportable diseases to the Department of Health on a daily basis.

In the case of most of the clinically serious infectious diseases in this audit, Manitoba Health's confidence level in the completeness of reporting of confirmed cases is very high. Testing for most of the identified diseases is highly centralized in the Province, taking place primarily at the Cadham Provincial Public Health Laboratory and reference labs. It is highly unlikely that confirmed cases of these diseases would not be reported due to their clinical, public health and laboratory significance. In light of these factors, Manitoba Health is very confident in the completeness of reporting of invasive meningococcal diseases, Haemophilus influenzae B infections, active tuberculosis and measles within Manitoba. One cross check, through an active surveillance system, is the IMPACT program, managed by the Canadian Pediatric System, which follows vaccine preventable diseases, such as invasive meningococcal diseases and Haemophilus influenza B cases at 12 teaching hospitals in Canada (including the Health Sciences Centre) for evidence of missed vaccine preventable diseases prevention opportunities.

In the case of HIV, a CDC federal field surveillance Epidemiologist who works at Cadham Provincial Public Health Laboratory, currently cross validates all confirmed HIV cases as part of a national surveillance program. In the cases of Verotoxigenic E. coli and chlamydia mild and asymptomatic cases may not be detected and therefore will not be reported. Cases of asymptomatic HIV may also go undetected. The statistic reported for these diseases may under-represent the total incidence in the population due to these sub-clinical cases.

Diabetes represents unique reporting challenges. Unlike the infectious diseases, the prevalence rate of diabetes in the population is derived by applying statistical methods to the administrative hospital and medical claims payment data. The statistics included in the PIRC report were derived from the National Diabetes Surveillance System (NDSS). This national reporting system, in which Manitoba participates, is still under development. Manitoba will continue to work with the national process to *validate the diabetes statistics, which could include verification against alternative datasets such as the Pharmacare data.*

Manitoba Health is committed to continued improvement of the quality of statistical reporting in Manitoba. On a prioritized basis, additional audit and verification procedures could be put in place to ensure that all confirmed cases are being reported to Manitoba Health and Health Canada, as currently happens for HIV. The HIV model, (funded by Health Canada), could serve as a way to enhance the accuracy of national surveillance. Validation of reportable diseases against other data (e.g., physician claims) could be extremely resource intensive and may not be cost effective.

Manitoba Health will continue to work with Health Canada, both in terms of contributing to the development and improvement of national standards and reporting systems, and being in compliance with them.

CIHI Data Reservation

Data used for the following seven Manitoba health indicators were drawn from the relevant CIHI databases:

- 30-day Acute Myocardial Infarction Mortality Rate;
- 30-day Stroke Mortality Rate;
- Total Hip Replacement Rate;
- Total Knee Replacement Rate;
- Hospital Re-Admission Rate For Acute Myocardial Infarction;
- Hospital Re-Admission Rate for Pneumonia; and
- Hospitalization Rate for Ambulatory Care Sensitive Conditions.

These databases were audited by a multi jurisdictional team of legislative auditors, lead by the Auditor General of British Columbia, and we relied on the work of these auditors in forming our reservation of our opinion for these systems.

Observation

The Auditor General of British Columbia was unable to provide an opinion on the accuracy of the data and the adequacy of disclosure on limitations of the data drawn from the Discharge Abstract/Hospital Morbidity Database of the Canadian Institute for Health Information for the seven PIRC indicators, because of a lack of documentation on the quality assurance process.

Additionally, a three year re-abstraction study, which will provide information on the quality of input data, will not be completed for another two years.

We also noted that some of these indicators could not have been reported by Manitoba, even if the data reservation by the Auditor General of British Columbia had not existed. This was due to the reporting format used between the Manitoba Department of Health and CIHI, which did not provide sufficient patient identification information to allow for the identification of readmission dates for patients with recurring conditions.

The Provincial Indicators Reporting Committee (PIRC) which was given the responsibility by the Conference of Deputy Ministers to define the Health Indicators to be nationally reported, found that these indicators were of national significance for reporting. As such, it is likely that these indicators will be again included in the next national Health Indicators Reports which will likely be issued in November 2004.

We recommend that Manitoba Health begin a process to ensure that data for these indicators is collected in a fashion that will result in Manitoba being able to report, in 2004, on those CIHI indicators it was not able to report in the 2002 Health Indicators Report.

COMMENTS OF OFFICIALS

Manitoba is committed to working with its information stakeholders to obtain the necessary data in order to be able to report on the cause specific mortality and hospital readmission indicators in the next PIRC report.

Manitoba Department of Health Data Reservation

Provincial data for the following six Manitoba health indicators were drawn from the relevant Manitoba Department of Health databases:

- Home Care Admissions;
- Waiting Times for Hip Surgery;
- Waiting Times for Knee Replacement Surgery;
- Waiting Times for Cardiac Surgery;
- Waiting Times for Radiation Therapy – Breast Cancer; and
- Waiting Times for Radiation Therapy – Prostate Cancer.

We reserved our opinion on these indicators because these data are produced by certain information systems, which could not reasonably be audited due to the absence of controls to ensure data completeness, accuracy or the adequacy of disclosure.

Observation

In the case of the reporting of Home Care admissions, we determined that the system used to report admissions was a payroll system for home care providers. Prior analysis of this system by the Manitoba Center for Health Policy (MCHP) had found that it undercounted for the reporting of home care client admissions. Additionally, we determined that while other systems within individual Regional Health Authorities (RHAs) tracked home care client data, the department was unable to reconcile the various RHA systems to the payroll system used to report home care admissions.

In the case of the reporting of Home Care admissions:

- **The Department of Health should ensure that all agencies and offices responsible for providing and administering home care services operate under a standardized protocol for the recording and reporting of client admissions, deletions and transfers and the entering of this information into the Manitoba Support Services Payroll (MSSP) system. In discussions with department** staff, we were told that Regional Health Authorities are currently considering moving the direct service home care program employees to alternative payroll systems, thus phasing out the MSSP system. A new computerized scheduling system is being investigated at the same time. An automated client assessment tool has also been piloted. Both these systems include client information and may become the authoritative source for client admission statistics. It would be highly efficient if the implementation of a new system could be expanded province wide to all home care providing agencies.

- The Department should institute a reconciliation process of the counts of clients receiving services between manual counts done by home care program administrators and the client database recorded in the MSSP system. Such reconciliation's should be done on a monthly basis.
- Should it be determined that the databases cannot be reconciled under the current systems, the Department should institute a one time count of all clients receiving home care by all agencies and providers by Personal Health Information Number (PHIN) at one point in time to ensure an accurate starting point for the tracking of admissions, discharges and transfers.

COMMENTS OF OFFICIALS

The primary means of recording client admissions to the Home Care program is a paper based system. The system used to produce the admissions statistics for the Health Care Indicators Report was an electronic payroll system for home care providers, the Manitoba Support services Payroll system (MSSP). Prior analysis of this system by the MCHP found that it was useful for determining who was receiving home care in Manitoba; however, it was missing some client admissions and under reported them. Since the time of that analysis, the WRHA has improved the completeness of the MSSP information on admissions by entering admissions that were previously not captured. Due to time constraints and resource limitations, the department was unable to reconcile statistics from the manual system to those of the MSSP system which were used to report home care admission statistics.

Manitoba Health is committed to being able to accurately report home care client admissions. Manitoba Health is working with the RHAs toward uniform implementation of the protocol for recording and reporting client admissions. It is presently developing minimum home care data requirements, which will specifically define the home care data that RHAs must report to Manitoba Health. This will include data to accurately and completely report on home care admissions. The intention is to move away from manual statistics reporting once computerized information systems are in place. Until such time, the MSSP system will remain in place. Consideration will be given to the reconciliation of admission statistics derived from MSSP with those of the paper-based systems.

In the case of the various waiting time databases, these systems relate to three separate small stand alone systems. The systems used to report waiting times for hip and knee replacement surgery, cardiac bypass surgery and radiation therapy treatment for breast and prostate cancer are relatively new and are still being developed. As such, we noted that each lacked certain factors which would help to ensure the accuracy and completeness of waiting list data.

We recommend the following:

- **There should be a process to ensure the saving and archiving of the databases on a regular basis.**
- **Waiting lists could more efficiently be maintained on database applications, as opposed to spreadsheet software.**
- **There should be procedures in place to ensure control of access to the databases.**
- **There should be a process in place to ensure the systematic assignment of unique patient identification numbers.**
- **Balancing procedures should be in place between the waiting list data and the medical records to ensure the completeness and accuracy of the statistics being reported.**

Additionally, in the case of waiting times reported for hip and knee replacement surgery, the data collected for the compilation of these waiting lists only included surgeries performed within the WRHA, and of those surgeries performed within the WRHA, only 60-65% of surgeries performed were included, due to a number of orthopedic surgeons not participating in the maintaining of waiting list data.

As a result, the waiting list data reported did not represent all surgeries done in Manitoba, and only represented surgeries performed in the WRHA by surgeons contributing information to the waiting list.

We recommend that the database be expanded to include all such surgical procedures performed province wide.

COMMENTS OF OFFICIALS

Manitoba Health is committed to improving the quality of reporting of waiting list data. Manitoba Health will continue to work with the WRHA and CancerCare Manitoba to refine and improve the systems used to report waiting times.

The WRHA is working toward 100% surgeon participation in the waiting time system for hip and knee replacement surgeries. Expansion of existing reporting systems to capture all hip and knee replacement surgery province-wide will be considered.

Manitoba Department of Health, Non-Reporting of Indicators

Eleven of the 67 Health indicators to be reported as defined by the Provincial Indicators Review Committee (PIRC) were not reported by Manitoba in the September 2002 Health Indicators report. These non-reported indicators are as follows:

- 365 day net survival rate for acute myocardial infarction;
- 180 day net survival rate for stroke;
- Reported wait times for specialist physician visits;
- Reported wait times for diagnostic services;
- Reported wait times for surgery;
- Hospital re-admission - acute myocardial infarction;
- Hospital re-admission - pneumonia;
- Access to 24/7 first contact health services, difficulty in obtaining routine or ongoing health services;
- Access to 24/7 first contact health services, difficulty in obtaining health information or advice;
- Access to 24/7 first contact health services, difficulty in obtaining immediate care; and
- Access to 24/7 first contact health services, percent having a regular family doctor.

Observation

Four of these indicators were not reported because Manitoba did not collect data on these indicators or did not have sufficient data to accurately report on these indicators. These four indicators that Manitoba did not report on relate to survival rates and hospital re-admissions.

Seven of the indicators not reported on by Manitoba were optional for the September 2002 report according to the PIRC reporting requirements. These include reported waiting times for specialist physician visits, diagnostic services and surgery, as well as access to 24/7 first contact health services. Statistics Canada had previously reported their survey data for these indicators in the spring of 2002 and had reported significant limitations surrounding the quality of the data for Manitoba. While Manitoba had alternative sources for some of the seven indicators, those data sources did not meet the reporting requirements defined by PIRC.

The Provincial Indicators Reporting Committee (PIRC) which was given the responsibility by the conference of Deputy Ministers to define the Health Indicators to be nationally reported, found that these indicators were of national significance for reporting. As such, it is likely that these indicators will be again included in the next national Health Indicators Reports which will likely be issued in November 2004.

We recommend that the Department of Health begin a process to ensure that data for these indicators is collected in a fashion that will result in Manitoba being able to report on these indicators in the next report.

COMMENTS OF OFFICIALS

Manitoba Health is committed to work with its information stakeholders in order to achieve complete compliance with PIRC reporting requirements for future reports.

Conclusion

A management letter will be provided to the Deputy Minister of Health which details the system weaknesses we identified within the Manitoba Health databases, which resulted in us having to reserve our opinion on those associated indicators. We will include suggestions for modifications, which when implemented, would allow us to provide an unqualified audit opinion on these indicators in future reports.

Our office is encouraged by the work undertaken by the Manitoba Department of Health in the preparation of the Manitoba Health Indicators Report. This Report was the first cooperative effort between Federal, provincial and territorial governments to report to their own citizens on health system performance using similar, comparable indicators and measures. This will improve Manitoba's ability to gather useful health care data and report health care system performance to its citizens on a nationally comparable basis.

UPDATE ON THE STATUS OF THE REFORM OF THE PUBLIC ACCOUNTS COMMITTEE

Reforms to the Functioning of the Public Accounts Committee

When it operates optimally, a Public Accounts Committee is a key accountability instrument. It can contribute significantly to holding government answerable not only for the financial condition of a Province, but also for the efficiency and effectiveness of its administration. On several occasions since 1997, the Auditor General has pointed out that there are opportunities to dramatically improve the effectiveness of Manitoba's Standing Committee on Public Accounts. Unlike other jurisdictions, Manitoba's Public Accounts Committee has been operating in a partisan fashion and has generally not been functioning in a manner consistent with the guidelines developed by the Canadian Council of Public Accounts Committees. Moreover, the Public Accounts Committee has seldom met. Only two meetings were held by the Committee between November 1, 1998 and June 30, 2001. By contrast, Public Accounts Committees in other Canadian jurisdictions held an average of 44 meetings during the same time period.

At its July 11, 2000 meeting, the Public Accounts Committee agreed to review how it operates and to develop proposed changes for endorsement by the Legislative Assembly. The review process included consideration of recommendations put forward by the Auditor General in 1997 and 1998. As well, the Chairperson and Vice-Chairperson of the Committee consulted with the Auditor General and sought out his advice in developing a set of proposed guidelines to reform the Standing Committee.

On August 8, 2002 the Legislative Assembly adopted some of the reforms that were proposed by the Auditor General. The accompanying table summarizes the Auditor General's recommendations as compared to the main changes agreed to by the Legislature in contrast to the way in which the Committee has functioned up until now.

We commend the Government for having taken the first step towards making Manitoba's Public Accounts Committee more functional. The adoption of guidelines, that set out the mandate, scope and general procedure that the Public Account Committee is to follow in its meetings, represents meaningful reforms. As well, the guidelines reflect some movement towards making the Public Accounts Committee non-partisan.

However, we continue to believe that further reforms are warranted. For example, the Minister of Finance should cease to be a member of the Public Accounts Committee (as is the practice in other jurisdictions). As well, the Committee's Chairperson (a member of the Opposition) and Vice-Chairperson (a member of the Government) should be given responsibility for determining when meetings are convened, proposing meeting agendas, and determining who to call upon to attend the meetings in order to answer questions from the members.

The guidelines adopted by the Legislature give the Public Accounts Committee the authority to review and make recommendations to the Legislative Assembly on the functioning of the Committee and its rules. We hope that in future, the Public Accounts Committee will use its authority to recommend to the Legislative Assembly further reforms, consistent with the above noted changes, to ensure less government involvement in the operation of the Committee. Ultimately, a well functioning Public Accounts

Committee is one in which government plays a more arms-length role on the Committee thereby demonstrating its commitment to letting the Committee do what it is created to do – holding government accountable for its stewardship responsibilities.

Practices of the Public Accounts Committee (PAC) of Manitoba Prior to Adopted Reforms	Reforms Recommended by the Auditor General of Manitoba	Changes to Procedures of Manitoba's Public Accounts Committee (PAC) Adopted by the Legislature on August 8, 2002
Membership on PAC • Cabinet Ministers are members of PAC. • The Minister of Finance is always a member.	Exclusion of Cabinet Ministers from membership on the PAC.	•With the exception of the Minister of Finance, Cabinet Ministers to be ineligible as members of PAC.
Governing Meetings • Meetings of the PAC convened at the call of the House Leader. • House Leader determines which of the Auditor General's reports are referred to the PAC for consideration.	A steering Committee of PAC to determine meeting agendas, and the number and frequency of PAC meetings (Steering Committee to consist of the chair and vice-chair of PAC and such other persons elected by PAC from among its members).	•Meetings of the PAC to be held at the call of the House Leader. •The House Leader shall convene at least four PAC meetings a year. •All reports of the Auditor General stand automatically referred to the PAC (The Auditor General Act, proclaimed May 1, 2002).
Mandate of PAC • A written mandate was not in place.	Adoption of a written mandate for the PAC which includes: • holding Government accountable for the administration of public assets and spending of public funds; • reviewing legislative amendments that impact on the responsibilities of the Auditor General; • focusing on the effective and efficient administration of Government policies and programs.	•A written mandate for the PAC was adopted and is consistent with the recommendations of the Auditor General. •The PAC is also given the authority to review and make recommendations to the Legislature on the functioning of the PAC and its rules.
Committee Rules • Partially existed in the form of common procedures that apply to all standing committees of the Legislature (e.g., rules regarding quorum, replacement of members, in-camera meetings.	Adoption of a written set of operating principles that are consistent with the Guidelines issued by the Canadian Council of Public Accounts Committees.	•Written rules have been adopted that pertain specifically to the procedures that PAC shall follow in conducting its meetings and are generally consistent with the Guidelines of the Canadian Council of Public Accounts Committees.
Scope of PAC Mandate • No explicit statement in place regarding the scope of the PAC.	The PAC should have the right to examine all past, current and committed expenditures of government and recipients of public money.	•The scope of the PAC is consistent with the recommendations of the Auditor General.
Questioning Witnesses • Not an established practice.	The PAC should have and use the power to call and question witnesses, review information from them and examine papers and records.	•Incorporated into the PAC guidelines for Manitoba.
Auditor General's Role • Attended PAC meetings, answered questions and provided observations to the Committee as necessary.	The PAC should have the right to request the Auditor General to conduct specific reviews.	•Incorporated into the PAC guidelines for Manitoba.
Recommendations by PAC • Not an established practice.	The PAC should have the right to make recommendations to the Legislative Assembly and to put in place a systematic process for following-up on the implementation of its recommendations.	•Incorporated into the PAC guidelines for Manitoba.

FUTURE HANDBOOK SECTIONS AFFECTING FINANCIAL REPORTING OF THE PUBLIC ACCOUNTS

Public Sector Accounting Board

The Canadian Institute of Chartered Accountants (CICA) sets out Generally Accepted Accounting Principles (GAAP) for entities in Canada. The recommendations and guidance on accounting for businesses and not-for-profit entities are detailed in the CICA Accounting Handbook.

However there are unique accounting issues encountered in the public sector that are different from the issues encountered in the private sector. The CICA recognized the unique characteristics of accounting in the public sector and established the Public Sector Accounting Board (PSAB) to issue recommendations and guidance regarding GAAP in the public sector. These recommendations and guidance strengthen accountability in the public sector through developing, recommending and gaining acceptance of accounting and financial reporting standards. PSAB recommendations and guidance are detailed in the PSAB Handbook.

The PSAB defines the public sector to include federal, provincial, territorial and local governments, government organizations, government partnerships, and school boards.

The public sector reported on by the Office of the Auditor General in Manitoba is comprised of the Summary Financial Statements of the Province of Manitoba and the government organizations consolidated in these statements. This is described as the Government Reporting Entity.

PSAB recommendations directly apply to the Summary Financial Statements of the Government of Manitoba. The Auditor's Report issued by the Office of the Auditor General in Manitoba on the Summary Financial Statements reflect the extent to which government financial statements comply with PSAB standards.

Our Office and external auditors also report on the financial statements of the government organizations making up the Government Reporting Entity.

These government organizations may base their accounting on the PSAB Handbook or the CICA Accounting Handbook depending on the nature of the organization. Government business-type organizations and government not-for-profit organizations adhere to the recommendations in CICA Handbook. Other government organizations base the accounting policies on those that most appropriately reflect their objectives and circumstances - based on the accounting recommendations of PSAB or on the recommendations in CICA Handbook. Where the PSAB or CICA Handbook is silent on a particular issue, the entity obtains guidance from other acceptable sources, usually practice comparisons.

Future PSAB Handbook Sections Affecting Financial Reporting in Public Accounts

PSAB is responsible for developing Generally Accepted Accounting Principles (GAAP) for the public sector. Accordingly, it has approved a number of projects that are underway.

After developing the draft standards, PSAB then issues exposure drafts on the proposed standards to be included in the Handbook. Comments on the proposed standards are requested from interested parties. Depending on the comments received the standards in the exposure drafts may be adopted, changed, reissued as another exposure draft or withdrawn. Once adopted the standards are included in the Handbooks and are then considered GAAP.

PSAB also issues research studies to provide guidance on specific areas.

The exposure drafts and other projects highlighted below have a potential effect on GAAP for the Public Accounts of the Province of Manitoba.

Exposure Drafts

1. PSAB Exposure Draft on Foreign Currency Translation

The PSAB exposure draft on foreign currency translation proposes revising the standards in the public sector for recognition, measurement, presentation and disclosure of transactions and balances denominated in a foreign currency. The exposure draft proposes to continue the deferral and amortization of gains and losses on long-term monetary items. This concept is relatively unchanged from the existing recommendations. However the international community is moving toward immediate recognition of the foreign currency gains and losses. Recognizing this trend, PSAB will revisit this issue in three years.

The exposure draft also proposed certain conditions that must be present for hedge accounting to be present and proposed disclosure requirements designed to highlight a government's exposure to currency risk and the policies for managing that risk.

There will be no major impacts on Public Accounts as foreign currency exchange gains/losses are already deferred and amortized. There will be some minor changes in accounting, presentation and hedging policies:

- Disclosure will have to be made of a sensitivity analysis illustrating the effect of a change in foreign exchange rates; and
- The Government will have to develop specific documentation identifying the relationship between the hedged item and the hedging item.

Status of exposure draft: Comments were to be provided by August 5, 2002. Final PSAB Handbook material is expected to be approved in February 2003.

2. PSAB Exposure Draft on the Reporting Model – Senior Governments

The reporting model is the basis by which financial statements are presented for governments. The exposure draft proposes to revise the existing standards that describe the objectives and reporting requirements for senior (federal and provincial governments) governments.

Currently, PSAB requires the Summary Financial Statements of senior governments to be reported using a net debt model which focuses on debt and effectively removes tangible capital and other non-financial assets in determining the net position of government. The proposed reporting model is an expensed-based model tailored to highlight the unique characteristics of government. Under the proposed model both the net debt position and the expense based accumulated surplus/deficit is presented in the Statement of Financial Position. The Statement of Financial Position includes tangible capital and other assets. The Statement of Operations (Revenue and Expenses) reports the annual surplus/deficit as the difference between revenues and expenses.

The new reporting model is consistent with the way Manitoba is currently reporting in its financial statements. The Summary Financial Statements of the Province of Manitoba are on an expense basis with information on net debt disclosed. Therefore, there will only be minor changes necessary to the Summary Financial Statements.

Status of exposure draft: Comments were to be provided by June 14, 2002. Final PSAB Handbook material is expected to be released January 2003.

Other Projects

3. Financial Statement Discussion and Analysis

PSAB has undertaken a project to develop principles and guidance for the presentation of financial statement discussion and analysis (FSD&A) as required supplementary information in a government's financial report. The objective of the FSD&A would be to enhance the usefulness of accountability information presented by the public sector.

FSD&A information would include narrative explanations and graphical depiction of the period reported on highlighting the significant events and conditions that shaped the information presented in the financial statements. It would include an analysis of key variances and trends in the financial information.

The Province of Manitoba is already presenting financial indicators as described in the Public Accounts - Improvements and Recommendations section.

Status: Statement of principles prepared. Expected release of an exposure draft is February 2003.

4. Government Reporting Entity

One of the areas in PSAB that has been contentious involves the determination of what entities should be included in a government's reporting entity. That is, what entities should be consolidated in the Summary Financial Statements. PSAB set up a task force to clarify the Government Reporting Entity (GRE). The PSAB task force is using control as the main basis for determining if an entity should be included in the GRE.

The task force is also considering the issues related to accounting for government entities in the GRE.

Status: A Task force was formed and a discussion paper approved. An exposure draft was released in November 2002.

5. GAAP Hierarchy

PSAB provides the generally accepted accounting principles (GAAP) for the public sector. However, there are instances where PSAB is silent in particular areas. Where this happens, public sector entities have to look to other sources for guidance. A GAAP hierarchy would identify those other sources and the level of authority they have.

This project will address those issues directly involved in identifying and determining the acceptable sources, and levels of authority those sources have, in a hierarchy.

Status: The project proposal was approved.

Research Studies

6. Infrastructure Research Study

Infrastructure assets form a significant component for the public sector. Governments faced issues in valuing and recording infrastructure assets. Consequently, many governments have not recorded the infrastructure assets in their financial statements.

PSAB approved a research study proposal with the objective of exploring approaches to accounting and reporting infrastructure assets.

Once issued, the research study will be a very valuable tool when developing accounting and reporting standards on infrastructure assets. The research study should provide guidance on the accounting and valuation issues.

This research study should provide guidance to the Province of Manitoba in the valuing and recording of infrastructure assets.

Status: Publication of the research study is expected shortly.

7. Financial Reporting by Rate Regulated Enterprises

The rates set by the regulator for an enterprise can have a significant impact on the enterprise's economic resources. Rate regulated enterprises have developed special accounting policies to record the impact of rate regulation on their financial statements. This development of special accounting to reflect the specific situation in an industry is known as industry practice.

PSAB and the CICA set up a joint research study group to review the special accounting and reporting issues for rate regulated enterprises and to suggest steps to address the special needs of these enterprises on their financial statements.

The research report has been completed and released by the study group.

The report provides criteria that have to be met in order for an enterprise to follow rate-regulated accounting. The study also provides general principles to follow in recognizing regulatory assets, liabilities, revenue and expenses. It also provides general principles for presentation and disclosure.

The report concluded that public sector enterprises can qualify as regulated enterprises and can apply the guidance in this study. However, there is some concern in the legislative audit community in applying the guidance in this study because there may not be an independent third party to set the rates as the government usually controls the public sector enterprise and the regulatory body.

In Manitoba, the Public Utilities Board (PUB) sets the rates for utilities. The members of PUB are appointed by the government. PUB is responsible for setting the rates for Manitoba Hydro-Electric Board and Manitoba Public Insurance Corporation.

The report also proposed that the CICA Accounting Standards Board (AcSB) develop a CICA Accounting Handbook section on rate regulated accounting. AcSB has now approved a project for developing a standard for rate-regulated operations.

Status: The research report has been completed and released. A Project has been approved for developing a CICA Handbook section on rate regulated accounting.

ASSURANCE (AUDITING) STANDARDS BOARD EXPOSURE DRAFT

1. Auditor's Reports on Financial Statements Prepared Using a Basis of Accounting Other Than Generally Accepted Accounting Principles

The recommendations of this exposure draft would affect the presentation on the certain public sector financial statements.

The CICA Assurance Handbook provides generally accepted auditing standards in Canada. The reporting standard in paragraph 5100.02 requires that where an opinion is expressed auditors should indicate whether the statements present the necessary information fairly *"in* *accordance with an appropriate disclosed basis of accounting which, except in special circumstances, should be Canadian generally accepted accounting principles".*

Generally accepted accounting principles (GAAP) as set out in the CICA Accounting Handbook is the appropriate basis of accounting for business type entities and not-for-profit organizations in the public sector. GAAP as set out in the PSAB Handbook is the appropriate basis of accounting for other entities in the public sector. However, as discussed in the GAAP Hierarchy, there are instances where PSAB is silent in particular areas. Entities then have to look to other sources for guidance. One of those sources is practice in the Canadian public sector. Following accounting policies consistent with those in other jurisdictions would be considered "special circumstances" as envisioned by the reporting standard. In these circumstances, the audit opinions would refer to a disclosed basis of accounting described in the notes to the financial statements. The audit opinion on the Summary Financial Statements is one such opinion that refers to a disclosed basis of accounting.

The exposure draft is intending to create a standard approach to the wording of the auditor's report on the financial statements prepared using a basis of accounting other than GAAP. The primary difference from existing standards would be the requirement for a fourth paragraph stating that the statements are not in accordance with GAAP.

The allowed instances for using a disclosed basis of accounting would be more restrictive under the proposed standards. The Assurance Standards Board is monitoring the project on the PSAB GAAP Hierarchy and will consider the necessity of amending existing guidance with respect to the auditor's report on the financial statements of entities subject to the PSAB Handbook.

We will closely monitor the requirements issued by the CICA and will consider the effect on the auditors' reports for Manitoba public sector entities.

Status: Comments on the exposure draft are to be provided by January 15, 2003.

NEW ASSURANCE (AUDITING) STANDARDS

1. The Auditor's Responsibility to Consider Fraud and Error in an Audit of Financial Statements

The CICA Assurance Handbook has issued new standards clarifying the auditor's responsibility for considering fraud and error in audits. It is effective for periods ending on or after December 15, 2002.

The new standards retain the concept of professional scepticism. That is, the auditor normally designs auditing procedures on the assumption of management's good faith, and exercises professional judgement in determining the nature, extent and timing of those procedures, in evaluating their results and assessing determinations made by management. However, the auditor performs the audit with an attitude of professional scepticism, without which the auditor may not be alert to circumstances which should lead him or her to be suspicious and he or she may then draw inappropriate conclusions from evidence gathered.

The new standards provide additional guidance in considering fraud risk factors and the procedures to perform to address those factors. The primary responsibility to prevent and detect fraud rests with management. The auditor performs the audit to determine if the financial statements or information are free of material misstatement due to fraud and error. However, a properly designed audit is less likely to detect fraud than error.

Auditors must perform the following activities as part of the planning phase of the audit:

- Discuss with other members of the audit team the susceptibility of the entity's financial statements to material misstatement as a result of fraud or error.
- Ask management about their assessment of the risk that the financial statements may be materially misstated as a result of fraud, about controls they have implemented, and whether they are aware of any fraud, suspected fraud or material errors.
- Consider whether matters relating to internal controls should be discussed with the audit committee or equivalent at the planning stage of the audit.
- When assessing inherent and control risks, consider how the financial statements might be materially misstated as a result of fraud or error. and
- Consider, as part of the risk assessment, whether fraud risk factors are present.

The new section adds specific requirements to obtain management representations regarding fraud and error.

The auditor has a responsibility to communicate to management and the audit committee, or the equivalent, about any fraud detected during the audit.

Status: CICA Assurance Handbook section issued and effective for financial statements with periods ending after December 15, 2002.

GLOSSARY

Glossary

Accumulated surplus/deficit	The total of all past annual surpluses and deficits to date.
Annual surplus/deficit	The difference between the government's annual revenues and expenses.
Derivative contract	A "swap" or other financial instrument that is entered into with a third party, and is used to hedge interest rate, foreign currency or other risk exposures.
Enterprises	Also known as commercial, self-supporting, or modified equity enterprises. These are self-sufficient Crown corporations that sell goods or services to parties outside the government reporting entity.
Federal transfers	Funds received by the Province from the Federal government, such as the Equalization Transfers and the Canada Health and Social Transfer.
Financial assets	Assets of government (such as cash, investments, loans and accounts receivable) that can be converted to cash in order to pay government's liabilities or finance its future operations.
General infrastructure assets	Also known as capital assets, physical assets, tangible assets, non-financial assets, physical capital stock. These general program capital assets form the infrastructure necessary to provide services to citizens.
Generally accepted accounting principles (GAAP)	This refers to the accounting policies that government should follow in order to be consistent in its accounting practices with other, similar, organizations. The accepted authority for GAAP for Canadian governments is the recommendations of the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA).
General programs	Those activities of government which are not carried out by its profit-oriented enterprises.
Government reporting entity	The group of organizations that are consolidated in the government's main summary financial statements.
Gross domestic product (GDP)	The money value of goods and services produced within a geographical boundary. GDP can be reported without adjusting for inflation (known as market value, current, or nominal GDP) or it may be discounted for the effects of inflation (real GDP).
Hedging	Reducing potential exposure to foreign currency, interest rate or other risks. Often achieved by entering into derivative contracts with a third party.
Net liabilities	Defined as government's total liabilities less its financial assets, this is the residual liability amount that will have to be paid or financed by future taxpayers.
Public debt	Borrowings of the government. Debt generally consists of debentures, notes payable, capital leases and mortgages.
Public debt charges	Also known as the cost of borrowing, or debt servicing costs, this is the interest incurred by government on its borrowings.
Summary financial statements	The financial statements through which government reports its financial position and operating results.

APPENDICES

Exhibit A: Summary Financial Statements - Auditor's Report 83
Exhibit B: Excerpts from "Province of Manitoba, Annual Report for the Year Ended March 31, 2002" 84
Exhibit C: Special Purpose Operating Fund and Special Funds Financial Statements - Auditor's Report 103
Exhibit D: Excerpts from "Province of Manitoba, Annual Report for the Year Ended March 31, 2002" 104
Exhibit E: Summary of Who Conducts the Audits 120
Exhibit F: Health Report Card 122

SUMMARY FINANCIAL STATEMENTS - AUDITOR'S REPORT

Exhibit A

Office of the Auditor General

500 - 330 Portage Avenue
Winnipeg, Manitoba
CANADA R3C 0C4

AUDITOR'S REPORT

On the Summary Financial Statements for the Government Reporting Entity Province of Manitoba

To the Legislative Assembly of Manitoba

I have audited the summary statement of financial position of the Government of the Province of Manitoba as at March 31, 2002 and the summary statements of revenue and expense, accumulated deficit and changes in cash flow and temporary investments for the year then ended. These financial statements are the responsibility of the Government. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Government, as well as evaluating the overall financial statement presentation.

In my opinion, these Summary Financial Statements for the Government Reporting Entity present fairly, in all material respects, the summary financial position of the Government of the Province of Manitoba as at March 31, 2002 and the summary results of its operations and changes in its cash flow and temporary investments for the year then ended, in accordance with the accounting policies stated in Note 1 to the financial statements and applied, on a basis consistent with that of the preceding year.

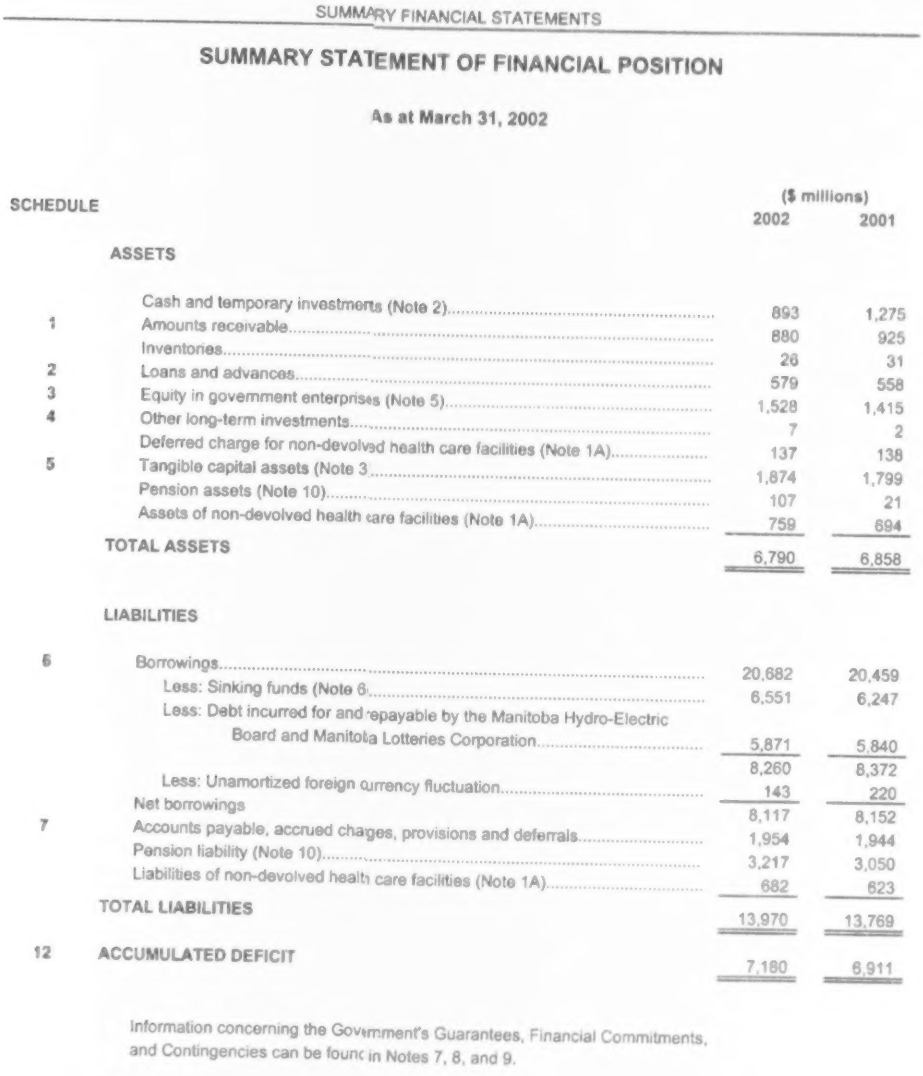
Winnipeg, Manitoba
September 17, 2002

Jon W. Singleton, CA•CISA
Auditor General

Exhibit B

EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2002"

(Schedules associated with these financial statements have not been replicated in this report. To review these Schedules, refer to the annual report noted above.)



SUMMARY FINANCIAL STATEMENTS

SUMMARY STATEMENT OF FINANCIAL POSITION

As at March 31, 2002

SCHEDULE		($ millions) 2002	($ millions) 2001
	ASSETS		
	Cash and temporary investments (Note 2)	893	1,275
1	Amounts receivable	880	925
	Inventories	26	31
2	Loans and advances	579	558
3	Equity in government enterprises (Note 5)	1,528	1,415
4	Other long-term investments	7	2
	Deferred charge for non-devolved health care facilities (Note 1A)	137	138
5	Tangible capital assets (Note 3	1,874	1,799
	Pension assets (Note 10)	107	21
	Assets of non-devolved health care facilities (Note 1A)	759	694
	TOTAL ASSETS	6,790	6,858
	LIABILITIES		
6	Borrowings	20,682	20,459
	Less: Sinking funds (Note 6	6,551	6,247
	Less: Debt incurred for and repayable by the Manitoba Hydro-Electric Board and Manitoba Lotteries Corporation	5,871	5,840
		8,260	8,372
	Less: Unamortized foreign currency fluctuation	143	220
	Net borrowings	8,117	8,152
7	Accounts payable, accrued charges, provisions and deferrals	1,954	1,944
	Pension liability (Note 10)	3,217	3,050
	Liabilities of non-devolved health care facilities (Note 1A)	682	623
	TOTAL LIABILITIES	13,970	13,769
12	**ACCUMULATED DEFICIT**	7,180	6,911

Information concerning the Government's Guarantees, Financial Commitments, and Contingencies can be found in Notes 7, 8, and 9.

Exhibit B
(cont'd.)

SUMMARY FINANCIAL STATEMENTS

SUMMARY STATEMENT OF REVENUE AND EXPENSE

For the Year Ended March 31, 2002

	($ millions)	
	2002	2001
REVENUE		
Manitoba Collections:		
Retail sales tax	966	933
Fuel taxes	223	224
Levy for health and education	244	239
Mining tax	9	45
Other taxes	401	376
Fees and other revenue	1,034	907
Government Enterprise Transfers (Schedule 3):		
Liquor Control Commission	163	158
Manitoba Lotteries Corporation	248	239
Income taxes:		
Corporation income tax	306	444
Individual income tax	1,659	1,757
Federal transfers:		
Equalization	1,399	1,339
Canada Health and Social Transfer	685	545
Federal Health Supplement	-	92
Medical Equipment Fund	3	-
Shared cost and other	263	312
TOTAL REVENUE	7,603	7,610
EXPENSES		
Health	2,740	2,616
Education	1,998	1,915
Family Services and Housing	893	854
Community, Economic and Resource Development	908	942
Justice and Other Government	685	655
Debt Servicing (Note 15)	502	514
TOTAL EXPENSES (Schedule 11)	7,726	7,496
NET REVENUE (EXPENSE)	(123)	114
Increase in equity in government enterprises before Manitoba Public Insurance Corporation (MPIC) surplus distribution (Schedule 3)	194	317
Net income before decrease in equity in government enterprises resulting from the MPIC surplus distribution	71	431
Decrease in equity in government enterprises - MPIC surplus distribution (Schedule 3) (Note 19)	(81)	-
SUMMARY NET INCOME (LOSS) (Schedule 9)	(10)	431

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Exhibit B
(cont'd.)

SUMMARY FINANCIAL STATEMENTS

SUMMARY STATEMENT OF ACCUMULATED DEFICIT

For the Year Ended March 31, 2002

	($ millions)	
	2002	2001
Balance, beginning of year.	6,982	7,383
Changes in accounting policy		
Federal accounting error (Note 12)	287	-
Accrual of employee future benefits (Note 13)	(14)	81
Amortization of unrealized foreign exchange fluctuations, debt discount and deferred income	-	21
Tangible capital assets (Note 3)	(4)	(21)
Restatement of net assets to trust liabilities	-	26
Net assets of devolved health care facilities		
Restatement of net assets of devolved health care facilities (Note 13)	(6)	-
Restatement of net assets to liabilities (Note 13)	5	-
Devolution of net equity of non-devolved health care facilities	-	(24)
Restatement to the accounting policies of the Government Reporting Entity	-	(49)
Repurchase of serial debentures (Note 1E)	(3)	(4)
Summary net loss (income) for the year	10	(431)
	7,257	6,982
Equity in non-devolved health care facilities (Note 1C and Note 4)		
Balance, beginning of year	(71)	(93)
Recognition of non-devolved health care facilities	(3)	-
Devolution of non-devolved health care facilities	-	24
Net income for the year	(3)	(2)
	(77)	(71)
Balance, end of year (Schedule 12)	7,180	6,911

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Exhibit B
(cont'd.)

SUMMARY FINANCIAL STATEMENTS

SUMMARY STATEMENT OF CHANGES IN CASH FLOW AND TEMPORARY INVESTMENTS

For the Year Ended March 31, 2002

	($millions) 2002	 2001
Cash and temporary investments provided by (used in)		
Operating activities:		
Summary net income for the year	(10)	431
Changes in non-cash items:		
Amounts receivable	45	(112)
Valuation allowance	(4)	3
Inventories	5	(1)
Accounts payable, accrued charges, provisions and deferrals	10	124
Pension liability	167	144
Amortization of foreign currency fluctuation	58	96
Amortization of debt discount	14	12
Amortization of investment discounts and premiums	(4)	(14)
Amortization of tangible capital assets	118	96
Adjustment to Accumulated Deficit - Federal Accounting Error	(287)	-
Adjustment to Accumulated Deficit - Other	19	-
	131	779
Changes in equity in government enterprises	(113)	(317)
	18	462
Investing activities:		
Made	(1,141)	(866)
Realized	744	630
Acquisition of tangible capital assets	(189)	(186)
	(586)	(422)
Financing activities:		
Debt issued	2,445	2,386
Debt redeemed	(2,051)	(2,387)
Changes in sinking funds	(208)	288
	186	287
Changes in cash and temporary investments	(382)	327
Cash and temporary investments, beginning of year	1,275	948
Cash and temporary investments, end of year	893	1,275

Exhibit B
(cont'd.)

NOTES TO THE SUMMARY FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2002

1. **SIGNIFICANT ACCOUNTING POLICIES**

A. General Basis of Accounting

The Summary Financial Statements have been prepared in accordance with Canadian generally accepted accounting principles for senior governments as recommended by the Canadian Institute of Chartered Accountants (CICA), with the following exceptions:

1) Material adjustments may result from changes in accounting policy or from the correction of an error which are attributable to and identifiable with prior periods. It is the government's practice to reflect the effects of such adjustments in the accumulated deficit. Prior year balances are not restated.

2) The process of establishing the completeness and reasonableness of the estimated historical cost of the tangible capital assets is ongoing. Reporting policies are currently being developed and information is being gathered for other expenditures which include infrastructure such as highways, bridges, and land acquired for public use as well as for certain works of art and historical treasures.

3) The CICA recommends that when a government reports expenses and tangible capital assets in its financial statements, tangible capital assets should be reported as a component of the accumulated deficit. In addition, the Summary Statement of Revenue and Expense should provide a reconciliation of the expense-based surplus or deficit to the change in the accumulated deficit. The government reports tangible capital assets directly on its Summary Statement of Financial Position; they are included in total assets in calculating the accumulated deficit. The Summary Statement of Revenue and Expense is prepared on the expense basis, but is not returned to the expenditure basis of accounting to provide a reconciliation of the change in the accumulated deficit. Summary Net Debt (Schedule 12) provides a reconciliation from the accumulated deficit to net debt.

4) The government has adopted a policy of including the assets, liabilities and equity of health care facilities, which have not devolved their ownership to Regional Health Authorities in its financial statements on a combined basis. However, the annual net income (deficit) is recorded in the Summary Statement of Accumulated Deficit instead of the Summary Statement of Revenue and Expense. The assets and liabilities are not adjusted on a basis to be consistent with the accounting policies of the government reporting entity.

5) Prior to the 2000/01 fiscal year, individual health care facilities issued long-term debt in their own name to finance major capital acquisitions. In 2000/01, the Province began a program to finance such debt directly, taking advantage of its superior borrowing power and rates, and lowering the cost of health related borrowings for Manitoba. This debt is included as part of the Province's general purpose borrowings. The related asset for non-devolved health care facilities is recorded as a deferred charge and amortized over the same period as the term of the debt issue.

These accounting policies have been developed and are applied in accordance with the provisions of *The Financial Administration Act* of the Province of Manitoba.

B. The Reporting Entity

Various funds, Crown organizations and government enterprises comprising the government reporting entity are listed in Schedule 8.

The Operating Fund and Special Funds Special Purpose financial statements report amounts recorded as government revenue, expense on government programs, the lending and investment of government funds and the borrowing and repayment of debt.

Exhibit B

(cont'd.)

To be considered a part of the government reporting entity, an organization must be accountable for the administration of its financial affairs and resources to a minister of the government, or directly to the Legislature, and must be owned and/or controlled by the government, as determined by legislative provisions or by a majority holding of voting share capital.

All educational institutions receive most of their financial resources from voted appropriations which are recorded as expenses. Some of these institutions are separately incorporated, not owned or controlled by the government and are required to report separately on their stewardship. Accordingly, they are not consolidated in these financial statements. Those educational institutions that are consolidated in these financial statements are listed in Schedule 8.

C. Basis of Consolidation

Crown organizations are consolidated after adjusting their accounting policies to a basis consistent with the accounting policies of the government reporting entity. Inter-entity accounts and transactions are eliminated upon consolidation, except for retail sales tax and the levy for health and education. Where the fiscal year end dates of Crown organizations are not the same as that of the government reporting entity and their transactions significantly affect the financial statements, their financial results are updated to March 31.

Government enterprises, whose principal activity is carrying on a business, maintain their accounts in accordance with accounting principles which are generally accepted for business enterprises and which are considered appropriate to their individual objectives and circumstances. They derive the majority of their revenue from sources outside the government reporting entity. They are reported in these Summary Financial Statements using the modified equity method of accounting without adjusting their accounting policies to a basis consistent with that of the government reporting entity. The financial results of enterprises are not updated to March 31 where their fiscal year end is not the same as that of the government reporting entity. Inter-entity accounts and transactions with government enterprises are not eliminated, nor are normal operating inter-entity transactions disclosed separately. Supplementary financial information describing the financial position and results of operations of these enterprises is presented in Schedule 3.

All health care facilities are included in the summary financial statements. Certain facilities that were previously owned and operated by health corporations have transferred their ownership and operating control to Regional Health Authorities. These devolved facilities are consolidated on the same basis as Crown organizations. The assets, liabilities and equity of non-devolved health care facilities have not been consolidated herein but are disclosed on a combined basis.

D. Basis of Specific Accounting Policies

Revenue
All revenues are recorded on an accrual basis except when the accruals cannot be determined with a reasonable degree of certainty or when their estimation is impracticable. Recoveries of the debt servicing costs on self-supporting debt and revenue earned on investments and advances are recorded as a reduction of debt servicing expense. Government transfers are recognized as revenue in the period during which the transaction is authorized and any eligibility criteria are met. Generally, entitlements from the Government of Canada are recorded on a cash basis except for accruals of prior year adjustments determined before June 30 each year. For this 2001/02 fiscal year, a special adjustment was made in relation to additional Equalization entitlements which accrued to the Province for that year as a result of an error made by the Federal Government in remitting personal income tax collections, as described in Note 12. Though negotiations began before the year-end, final confirmation was not received from the Federal Government until September 4, 2002. Because of the significance of the amount, the accounts were held open to appropriately reflect this item in the fiscal year to which it relates.

Expenses
All expenses incurred for goods or services received are recorded on an accrual basis. Exceptions to this policy involve the acquisition of inventories acquired for the government's use that are reflected as expenses when incurred.

Exhibit B
(cont'd.)

Expenses include provisional amounts recorded in anticipation of future costs which are quantifiable and have been identified as obligations. Government transfers are recognized as expenses in the period during which the transaction is authorized and any eligibility criteria are met.

Gross Accounting Concept

Revenues and expenses are recorded in gross amounts with the following exceptions:

1) The municipal share of individual and corporation income taxes, which is collected through the Government of Canada and remitted by the Province of Manitoba to municipalities in accordance with *The Provincial-Municipal Tax Sharing Act*, is not recorded as revenue or expense.
2) Refunds of revenue are treated as reductions of current year revenue.
3) Decreases in valuation allowances previously provided are treated as reductions to expense.
4) Recoveries of the debt servicing costs on self-supporting debt and revenue earned on investments and advances are recorded as a reduction of debt servicing expense.

Liabilities and Assets

1) All borrowings are expressed in Canadian dollars and are shown net of sinking funds, unamortized debt issue costs and debt of the Province of Manitoba held as provincial investments. Foreign borrowings are converted at the exchange rate in effect at March 31 adjusted for any forward foreign exchange contract entered for settlement after the fiscal year end. Discounts or premiums, and commissions incurred at the time of the issue of debt are amortized monthly to debt servicing expense over the term of the debt.

2) The amount of the pension liability is based on actuarial calculations. When actual experience varies from actuarial estimates, the adjustments needed are amortized over the expected average remaining service life of the employee groups.

3) The year end translation adjustments reflecting the foreign currency fluctuation from the value at the issue date are recorded through the unamortized foreign currency fluctuation account, and amortized monthly to debt servicing expense over the remaining term of the debt. The unamortized portion of foreign currency fluctuation also reflects the gains or losses on the conversion of foreign currency debt called prior to maturity using the rates in effect at the time of the call and these gains and losses are amortized over the original remaining term of the debt.

4) Loans, advances and long-term investments are recorded at cost less valuation allowances. A valuation allowance is provided to reduce the value of the assets to their estimated realizable value or to reflect the impact of significant concessionary terms on outstanding loans. Premiums that may arise from the early repayment of loans or advances are reflected as deferred revenue and are amortized annually to debt servicing expense over the term of the related debt issue.

5) Investments denominated in foreign currency are translated to the Canadian dollar equivalent at the exchange rate in effect at March 31, unless the rate of exchange or a forward foreign exchange contract fixing the value has been negotiated, in which case that rate or amount is used. The year end investment translation adjustments reflecting the foreign currency fluctuation between year ends are amortized monthly over the remaining life of the investment and included with debt servicing expense. Expenses and other transaction charges incurred on the purchase of investments during the year are charged to debt servicing expense. Those expenses incurred in foreign currency are translated at the exchange rate in effect on the transaction date.

6) Inventories held for resale are recorded at the lower of cost and net realizable value.

Exhibit B

(cont'd.)

7) Tangible capital assets are amortized on a straight-line basis over their estimated useful lives as follows:

Land	Indefinite
Buildings	25 to 40 years
Vehicles	5 years
Aircraft and vessels	
- Aircraft frames	24 years
- Aircraft motors	5 years
- Vessels	24 years
Machinery, equipment and furniture	10 years
Road construction and maintenance equipment	15 years
Computer hardware and software	4 to 15 years
Leasehold improvements	Life of lease

One-half of the annual amortization is charged in the year of acquisition and in the year of disposal.

8) A tangible capital asset received as a donation is recorded at its fair market value with the same amount being shown as a deferred contribution which is amortized to revenue on the same basis as the asset is amortized. Where the acquisition cost of a tangible capital asset is shared with other jurisdictions under a shared cost agreement, such contributions are deducted from the cost of the related asset with any amortization calculated on the net amount.

9) During the 2000/01 fiscal year, the Federal Government created a Health Equipment and Infrastructure Fund for investment in new medical equipment. The Province's share of this fund was $37 million. Funding from the Health Equipment and Infrastructure Fund has been treated as deferred revenue and will be brought into revenue based on actual purchases of equipment according to a defined schedule.

10) Guarantees of the government are made through specific agreements or legislation to repay promissory notes, bank loans, lines of credit, mortgages and other securities. Provision for losses on guarantees are recorded when it is likely that a loss will occur. The amount of the loss provision represents the government's best estimate of future payments less recoveries.

E. Serial Debentures of School Divisions and Districts

The accumulated deficit of the government reporting entity includes amounts related to serial debentures of school divisions and districts, acquired by the government in prior years. The government is primarily responsible for funding the redemption of these debentures; accordingly these amounts are not reflected as assets. As the funding for annual redemptions flow from the appropriations of the government to the school divisions and districts, and then back to the Province, the accumulated deficit of the government reporting entity is reduced by the amount of such redemptions.

F. Use of Estimates

In the preparation of these financial statements, estimates are sometimes necessary because a precise determination of certain assets and liabilities is dependent on future events. These estimates have been based on management's best judgements applied to available information.

2. CASH AND TEMPORARY INVESTMENTS

Temporary investments are recorded at the lower of cost and market value. As at March 31, 2002, the cost of cash and temporary investments was $893 million (2001 - $1,275 million) with a market value of $896 million (2001 - $1,287 million). Investment revenue earned on the temporary investments funds during the year was $76 million (2001 - $89 million).

Exhibit B
(cont'd.)

3. TANGIBLE CAPITAL ASSETS

During the year, assets acquired in prior fiscal years with a net book value of $4 million (2001 - $2 million) were identified and recorded. Also included in the 2001 comparative figure is the capitalization of land amounting to $19 million.

4. EQUITY IN NON-DEVOLVED HEALTH CARE FACILITIES

The equity of the non-devolved health care facilities has been disclosed as a decrease to the accumulated deficit at March 31, 2002 of $77 million (2001 - $71 million). The change in net equity for the year resulted from the recognition of the net assets of previously unrecorded facilities of $3 million and net income for the year ended March 31, 2002 of $3 million (2001 - $2 million). Net income has not been reflected in the Summary Statement of Revenue and Expense.

5. EQUITY IN GOVERNMENT ENTERPRISES

The category definitions are as follows:

Utility:
An enterprise which provides public utility services for a fee.
Insurance:
An enterprise which provides insurance coverage services to the public for a fee.
Finance:
Enterprises which provide regulatory control and are revenue generating, or enterprises which use economy of scale to deliver goods and services to non-government clients.
Resource Development:
Enterprises charged with the development of various industries and/or the delivery of various goods and services which will assist the provincial economy.

Included in the equity in government enterprises are equities which are restricted for use by provincial legislation and thereby not available to discharge government liabilities or to finance other government programs.

Equity in government enterprises is comprised of:

	($ millions)	
	2002	**2001**
Restricted Equity in Government Enterprises:		
Manitoba Hydro-Electric Board	1,302	1,088
Manitoba Public Insurance Corporation	130	227
Workers Compensation Board	75	78
	1,507	1,393
Unrestricted Equity in Government Enterprises:		
Leaf Rapids Town Properties Ltd	2	2
Manitoba Hazardous Waste Management Corporation	5	5
Manitoba Lotteries Corporation	5	5
Manitoba Product Stewardship Corporation	6	7
Manitoba Public Insurance Corporation	3	3
	21	22
Equity in Government Enterprises	1,528	1,415

6. SINKING FUNDS

Sinking funds are recorded at the lower of cost and market value. As at March 31, 2002, sinking funds had a cost of $6,551 million (2001 - $6,247 million) and a market value of $6,946 million (2001 - $6,711 million). Investment revenue earned on the sinking funds during the year was $312 million (2001 - $364 million).

Exhibit B
(cont'd.)

Section 60 of *The Financial Administration Act* authorizes the Minister of Finance to provide for the creation and management of sinking funds for the orderly retirement of debt. The Minister of Finance may authorize, by directive, the amount, if any, to be allocated to the Province's sinking fund. The Province's sinking fund currently provides for the repurchase of foreign debt and the pre-funding of maturing debt issues. In addition, the Province's sinking fund is invested principally in securities issued or guaranteed by Canadian provinces.

As provided by *The Manitoba Hydro Act*, the Manitoba Hydro-Electric Board (Hydro) is required to provide, prior to its fiscal year end in each year, amounts for sinking funds which are not less than the sum of i.) 1% of the principal amount of Hydro's outstanding debt on the preceding March 31, and, ii.) 4% of the balance of cash and book value of securities in the sinking fund at such date. Sinking funds are invested in government bonds and the bonds of highly rated corporations and financial institutions. Interest earned on money and securities in the sinking fund is paid to Hydro.

The sinking funds are allocated as follows:

	($ millions) 2002	 2001
Province of Mantoba	4,961	4,835
Manitoba Hydro-Electric Board	1,520	1,347
Regional Health Authorities	66	58
University of Manitoba	4	7
Total sinking funds	6,551	6,247

7. GUARANTEES

The government reporting entity has guaranteed the repayment of promissory notes, bank loans, lines of credit, mortgages and other securities. The outstanding guarantees are as follows:

	($ millions) 2002	 2001
Promissory notes, bank loans, lines of credit and other	46	63
Manitoba Grow Bonds	8	9
Total guarantees outstanding	54	72

Provision for future losses on guarantees in the amount of $16 million has been recorded in the accounts. Debt guaranteed by the Province is guaranteed as to principal and interest until the debt is matured or redeemed.

8. FINANCIAL COMMITMENTS

The government reporting entity has approved long-term financial arrangements of various entities wherein indebtedness has been issued that is not guaranteed by the government, but funding assistance is provided annually from appropriations of the Operating Fund. The government reporting entity has also made future commitments against appropriations under long-term contracts that cover the rental or acquisition of tangible capital assets. These financial commitments as at March 31 are as follows:

Exhibit B
(cont'd.)

			($ millions)	
			2002	2001
Financial arrangements for completed projects:				
Public Schools			416	387
Future commitments:	Government Enterprises	Other		
Tangible capital assets, infrastructure and capital grants	158	216	374	433
Rental of tangible capital assets	37	145	182	171
Housing construction and approved mortgages	-	17	17	21
	195	378	573	625
			989	1,012

The government reporting entity has commitments which are not capital in nature, related primarily to future loans and grants and the maintenance of desktop equipment totalling $73 million (2001- $82 million).

In December of 2001, the government entered into a funding agreement with the City of Winnipeg and the TN Arena Limited Partnership regarding the True North Entertainment Complex. The Province's maximum commitment, after Federal Infrastructure contributions, is $13 million.

9. CONTINGENCIES

The government has been named in various legal actions, including treaty land entitlements. No provision has been made at March 31, 2002 in the accounts where the final results are uncertain.

A. Canadian National Railways (CNR)

The CNR had requested a declaration that *The Retail Sales Tax Act* does not apply to a major part of its costs related to railway rolling stock. CNR also requested a refund of sales tax it had paid in that respect. In April 2002, CNR and the Province agreed to abandon their actions as well as their claims and each agreed to release the other party.

B. Flood Costs

A provision has been made at March 31, 2002 for all flood claims and disaster financial assistance. The final amount of the government's share of these costs in the future is uncertain at the date these financial statements were issued.

C. Northern Development Projects

Effective April 1, 2001, the government terminated an agreement under which it fixed water power rates in return for Manitoba Hydro-Electric Board assuming the Province's obligations for northern development projects. The termination of this agreement may result in the government being contingently liable for any future claims.

10. PENSION PLANS

The government of the Province of Manitoba supports six separate pension plans. These include the Civil Service Plan (CSP), the Teachers' Plan (TP), the Members of the Legislative Assembly Plan (MLAP), the University of Manitoba Pension Plan, the Healthcare Employees Pension Plan (HEPP) and the Brandon University Retirement Plan. HEPP offers retirement benefits to employees of health care facilities. The pension plans for the universities of Manitoba and Brandon and HEPP are fully funded. There is no unfunded liability reported by the actuaries of the university pension plans and HEPP.

Exhibit B
(cont'd.)

The government is required, under the amended provisions of *The Balanced Budget, Debt Repayment and Taxpayer Accountability Act*, to set aside funds beginning in 2000/01, to address the government's unfunded pension liability. The minimum annual contribution must be sufficient to equal the contributions made by employees and teachers hired on or after April 1, 2000. While the minimum contribution was $6 million (2001 - $4 million) for the year ended March 31, 2002, the government set aside $75 million (2001 - $21 million) in the pension assets trust account. These funds are separately invested and maintained in trust accounts of the government and are increased by interest earned. The balance in the account as at March 31, 2002 was $107 million.

The actuarial valuations were based on a number of assumptions about future events, such as interest rates, wage and salary increases, inflation rates and rates of employee turnover, disability and mortality. Information about the economic assumptions used in the most recent actuarial valuations is provided below. Demographic assumptions used in the valuations reflect the experience of the plans.

Plan	Latest Valuation	Real Rate of Return	Inflation Rate	Investment Rate of Return
Civil Service	December 31, 1998	4.0%	3.0%	7.0%
Teachers'	January 1, 2001	4.0%	3.0%	7.0%
MLA	March 31, 2000	4.0%	3.0%	7.0%
University of Manitoba	December 31, 1999	4.0%	3.0%	7.0%
Brandon University	December 31, 2000	4.0%	3.0%	7.0%
HEPP	January 1, 2002	3.5%	3.0%	6.5%

During the year, no amendments were made to any of the plans.

The components of the unfunded pension liability and expense are as follows:

	($ millions)		
	Pension Expense	Pension Liability	
	2002	2002	2001
Operating Fund			
Civil Service Superannuation Fund			
Unamortized Experience Gain		112	122
Pension Liability	123	1,277	1,194
Members of the Legislative Assembly			
Unamortized Experience Gain		3	4
Pension Liability	2	28	28
Teachers' Retirement Allowances Fund			
Unamortized Experience Loss		(53)	-
Pension Liability	176	1,833	1,687
Crown organizations	20	17	15
	321	3,217	3,050

The pension liabilities of government enterprises are disclosed in Schedule 3 with the exception of the Manitoba Liquor Control Commission which is part of the Civil Service Superannuation Fund amount noted above.

A. Civil Service Plan

The Civil Service Superannuation Act (CSSA) established a defined benefit plan to provide benefits to employees of the Manitoba Civil Service and to participating agencies of the government through the Civil Service Superannuation Fund (CSSF).

As at March 31, 2002, the CSP had approximately 38,800 (2001 - 37,100) participants including active members, retired employees and former employees with entitlements.

Exhibit B
(cont'd.)

Certain amendments to the CSSA were made in 1992 which required that the CSSF establish and fund a separate account in an amount sufficient to cover the government's share of pension costs attributable to the 1992 amendments to the CSSA. The CSSF account maintained on behalf of the government at March 31, 2002 was $29 million (2001 - $28 million).

Effective December 15, 2000, the CSP was amended to include improved benefits. The cost of the plan amendments is fully funded from actuarially determined employee surpluses with no additional cost to the employer. The following describes the current terms of the CSP, with the previous terms indicated within brackets.

The lifetime pension calculation equals 2% of a member's best five years average yearly pensionable earnings multiplied by pensionable service, minus 0.4% (previously 0.6%) of the average Canada Pension Plan (CPP) earnings for the same period multiplied by pensionable service since January 1, 1966. The CSSA requires that employees contribute 6.0% (previously 5.1%) on pensionable earnings up to the CPP maximum earnings, and 7.0% of pensionable earnings above the maximum. 89.8% of contributions are used to fund basic benefits and 10.2% of contributions are allocated for indexing benefits. Contributions continue until the employee's retirement or other termination from service. Employee contributions for the year ended March 31, 2002 amounted to $61 million (2001 - $55 million).

Indexing benefits are not guaranteed and are paid only to the extent that the indexing adjustment account in CSSF can finance one-half of cost-of-living increases granted. The maximum annual adjustment is limited by legislation to two-thirds of the increase in the consumer price index for Canada.

The government does not make contributions to the CSSF during employees' service. By legislation, however, it is required to pay 50% of the pension disbursements made from the CSSF. For the year ended March 31, 2002, payments of $74 million (2001 - $70 million) were made to the CSSF.

An actuarial valuation report of the government's liability to the employees included in the CSSF was completed as of December 31, 1998. The report provides a formula to update the liability on an annual basis. In accordance with the formula, the government's actuarial liability has been calculated on an indexed basis to be $1,277 million as at March 31, 2002 (2001 - $1,194 million). The report disclosed an experience gain of $152 million which will be amortized over the 15 year expected average remaining service life of the employee groups. The 2001/02 amortization was $10 million.

B. Teachers' Plan

The Teachers' Pensions Act (TPA) established a defined benefit plan to provide pension benefits to teachers who have taught in public schools in Manitoba.

As at March 31, 2002, the Teachers' Retirement Allowances Fund (TRAF) had approximately 29,000 (2001 – 29,000) participants including active members, retired teachers and former teachers with entitlements.

The lifetime pension calculation is based upon the lesser of A or B:

A) The years of service prior to July 1, 1980, multiplied by 2% and the average salary of the best 7 of the final 12 years of service and years of service after July 1, 1980, multiplied by 2% and the average salary of the best 5 of the final 12 years of service;

less

The years of service from January 1, 1966, to July 1, 1980, multiplied by .6% and the average annual salary up to the yearly maximum pensionable earnings for the same period and years of service after July 1, 1980, multiplied by .6% and the annual salary up to the yearly maximum pensionable earnings for the same period.

B) 70% of the weighted average annual salary of the member in the 7 and 5 year periods used above.

Exhibit B
(cont'd.)

The TPA requires that teachers contribute 5.7% on pensionable earnings up to the CPP maximum earnings, and 7.3% on pensionable earnings above the maximum. 83.6% of contributions are used to fund basic benefits and 16.4% of contributions are allocated for indexing benefits. Contributions continue until the teacher's retirement or other termination from service. Teacher contributions for the year ended March 31, 2002, amounted to $47 million (2001 - $46 million).

Indexing benefits are not guaranteed and are paid only to the extent that one half of the pension adjustment does not result in an unfunded pension liability in TRAF.

The government does not make contributions to TRAF during teachers' service. By legislation, however, it is required to pay 50% of the pension disbursements and other disbursements made by TRAF as provided for in the TPA. For the year ended March 31, 2002, payments of $84 million (2001 - $76 million) were made to TRAF.

An actuarial report was completed for TRAF as of January 1, 2001, which determined the government's pension liability on an indexed basis. The report provides a formula to update the liability on an annual basis. In accordance with the formula, the government's actuarial liability has been calculated on an indexed basis to be $1,833 million at March 31, 2002 (2001 - $1,687 million). The report disclosed an experience loss of $57 million which will be amortized over the 13 year expected average remaining service life of the employee groups. The 2001/02 amortization was $4 million.

C. Members of the Legislative Assembly Plan

The pension plan for Members of the Legislative Assembly (MLAs) is established and governed by *The Legislative Assembly Act* (LAA). For MLAs elected prior to the dissolution of the Assembly of the 35th Legislature, the LAA provides for defined pension benefits based on years of service. For those elected after the 35th Legislature in April 1995, the LAA provides for matching contributions. As at March 31, 2002, there are 119 (2001 - 123) plan members who are entitled to receive future pension benefits in accordance with the LAA.

The calculation for defined pension benefits is equal to 3% of the average annual indemnities for the last five years served as a member or all the years served if less than five multiplied by the number of years of pensionable service up to April 1995. These entitlements are fully indexed to cost of living increases.

An actuarial valuation report of the government's liability to the MLAs included in the pension plan was completed as of March 31, 2000. The report provides a formula to update the liability on an annual basis. In accordance with the formula, the government's actuarial liability has been calculated on an indexed basis to be $28 million as at March 31, 2002 (2001 - $28 million). The report disclosed an experience gain of $4 million which will be amortized over the 10 year expected average remaining service life of the MLAs.

Under the matching contributions provisions, MLAs may contribute up to 7% of their remuneration toward a Registered Retirement Savings Plan (RRSP) of their choice. The government matches the member's contributions on a current basis, consequently, there is no liability for past service benefits under this component of the plan. In the event that a member withdraws money from the RRSP while an active member of the Legislative Assembly, the government's contribution would be refundable.

D. University of Manitoba

The University of Manitoba administers the University of Manitoba Pension Plan (1970), The University of Manitoba GFT Pension Plan (1986) and The University of Manitoba Pension Plan (1993). These are trusteed pension plans. The Trustees are responsible for the custody of the Plans' assets and issuance of annual financial statements, which do not form part of the Province's Summary Financial Statements.

The University of Manitoba Pension Plan (1970) and University of Manitoba Pension Plan (1993) are both money purchase plans with a defined benefit minimum. The funding for the plans requires a matching contribution from the University and the employees. The surplus from the Plans and the matching contribution is adequate to fund the Plan and the current level of funding satisfies the requirements of *The Manitoba Pensions Benefit Act*. The plans are not indexed.

Exhibit B

(cont'd.)

As at December 31, 2001, the University of Manitoba Pension Plans had 4,801 active members (2000 - 4,570), and 764 pensioners (2000 - 718). The plans do not offer deferred pension elections.

The actuarial present value of accrued pension benefits has been determined using the projected unit credit actuarial cost method, and assumptions developed by reference to expected long-term market conditions. An actuarial valuation effective December 31, 1999 was completed in 2000 by Eckler Partners Ltd., a firm of consulting actuaries. The results of this valuation have been extrapolated by Eckler Partners Ltd. to December 31, 2001. As at December 31, 2001, the University of Manitoba Pension Plan (1970) and The University of Manitoba Pension Plan (1993) were in an actuarial surplus of $1 million (2000 - $1 million) and $23 million (2000 - $21 million), respectively. The University of Manitoba cannot access this surplus and as a result, no asset has been recorded in the Province's Summary Financial Statements.

The University of Manitoba recognized expenses equal to its contributions of $10 million (2001 - $10 million) for the 1970 Plan and for the 1993 Plan for the fiscal year ended March 31, 2002. Employee contributions equalled the employer contributions.

The next full actuarial valuation of the Plans will be as at December 31, 2001 and will be completed in 2002.

The University of Manitoba GFT Pension Plan (1986) is a defined contribution pension plan, therefore there is no requirement for an actuarial valuation of this Plan. The University's contributions to this Plan were $2 million in 2002 (2001 - $1 million).

E. **Brandon University**

The Brandon University administers the Brandon University Pension Plan, which is a trusteed pension plan. The Trustees are responsible for the custody of the Plan's assets and issuance of annual financial statements, which do not form part of the Province's Summary Financial Statements.

The Brandon University Pension Plan is a final average contributory defined benefit pension plan established April 1, 1974 for the benefit of the employees of Brandon University. The funding for the plan requires a matching contribution from the University and the employees. The surplus from the Plan and the matching contribution is adequate to fund the Plan and the current level of funding satisfies the requirements of *The Manitoba Pensions Benefit Act*.

As at December 31, 2001, the Brandon University Pension Plan had 424 active members (2000 - 421), 173 pensioners (2000 - 169), and 32 deferred pensions (2000 - 23).

The actuarial present value of accrued pension benefits has been determined using the accrued benefit method prorated on service and using assumptions recommended by the actuary and approved by the Trustees. An actuarial valuation was made as at December 31, 2000 by Eckler Partners Ltd., a firm of consulting actuaries. The results of this valuation have been extrapolated by Eckler Partners Ltd. to December 31, 2001. As at December 31, 2001, the Brandon University Pension Plan was in an actuarial surplus of $11 million. The Brandon University cannot access this surplus and as a result, no asset has been recorded in the Province's Summary Financial Statements.

The Board of Governors of Brandon University has approved the use of $5 million of the plan surplus at December 31, 2000 to improve benefits for members of the Plan. The details of the improvement are currently being finalized by the Trustees and it is expected that the improvement will be implemented in 2002.

The Brandon University recognized expenses equal to its contributions of $1 million (2001 - $1 million). Employee contributions equalled the employer contributions.

The next full actuarial valuation of the Plan will be as at December 31, 2003 and will be completed in 2004.

Exhibit B

(cont'd.)

F. Healthcare Employees Pension Plan - Manitoba (HEPP)

The Healthcare Employees Pension Plan - Manitoba (HEPP) was established in 1997 to meet the retirement needs of Manitoba's healthcare employees and their beneficiaries. Benefits accrued from January 1, 1997 are administered in accordance with the HEPP Plan Text and governing agreements. Benefits accrued up to and including December 31, 1996 are administered in accordance with previous Plans. HEPP is governed by an independent, 12 member board of Trustees representing both union and employer participants. The Trustees are responsible for the custody of the Plans' assets and issuance of annual financial statements, which do not form part of the Province's Summary Financial Statements.

HEPP is a defined benefit pension plan. The lifetime pension calculation is based on an amount equal to:

- 1.5% of a member's highest average earnings up to the Canada Pension Plan Yearly Maximum Pensionable Earnings (YMPE), and,
- 2.0% of a member's highest average earnings over the YMPE,

multiplied by a member's years of contributory service. The highest average earnings are determined by averaging the best five years of annualized pensionable earnings in the past eleven years prior to termination, retirement or death.

Ad hoc cost of living adjustments (COLAs) to pension benefits are reviewed every year. Members who retired on or before July 1, 2000, disabled members and deferred vested members received a 2.34% ad hoc COLA effective January 1, 2002.

As at December 31, 2001, HEPP had 31,817 active and disabled members (2000 - 29,656), 4,265 deferred vested members (2000 - 3,310), and 8,006 retired members (2000 - 7,540). There are currently 175 participating employers.

The Plan Text requires that an annual actuarial valuation be performed on both a going concern basis and a solvency basis by an independent actuary. Towers Perrin, a firm of consulting actuaries, prepared the most recent actuarial valuation as at January 1, 2002, using the unit credit actuarial cost method. As at January 1, 2002, HEPP had a going concern actuarial surplus of $87 million (January 1, 2001 - $188 million). The employers cannot access this surplus and as a result, no asset has been recorded in the Province's Summary Financial Statements.

11. AMOUNTS HELD IN TRUST

The government held certain fiduciary trusts for investment or administration at March 31, 2002, totalling $435 million (2001 - $475 million). Such deposits are pooled with other available funds of the government for investment purposes and are accorded a market rate of interest.

The government also provides a safekeeping service for various departments, agencies, boards and commissions. In this capacity, it held custodial trust funds in the form of bonds and other securities at March 31, 2002 totalling $135 million (2001 - $147 million).

The Civil Service Superannuation Fund, University of Manitoba Pension Plans and Brandon University Retirement Plan have been established by legislation to administer various pension and insurance trust funds to which the government reporting entity contributes but over which the government reporting entity has no power of appropriation. The total assets as at December 31st are as follows:

	($ millions)	
	2001	**2000**
Civil Service Superannuation Fund	2,356	2,253
University of Manitoba Pension Plans	800	814
Brandon University Retirement Plan	76	79
	3,232	3,146

Exhibit B

(cont'd.)

12. FEDERAL ERROR ON INCOME REMITTANCES AND RELATED EFFECTS ON EQUALIZATION

Under federal-provincial tax collection agreements, the Federal Government administers personal income taxes on behalf of all provinces other than Québec. It has responsibility for the collection of provincial income taxes and for paying the amounts owed to provincial governments. Provinces rely entirely on federal payment reporting and accounting processes. The Federal Government makes interim payments to provinces during the taxation year, based on an estimate of the total amount of provincial income taxes that will ultimately be assessed on tax returns in each province. After the income tax returns for the tax year have been filed and processed, the taxes actually assessed in the province are reconciled with the interim payments. If the interim payments were too high, the difference is paid by the province to Canada or, if they were too low, by Canada to the province.

In the case of mutual fund trusts, refunds of provincial tax assessed on capital gains were never accounted for in the federal reconciliation calculation. On January 29, 2002, the Federal Government disclosed this longstanding error to provinces. For the tax years 1993 through 1999, the Federal Government had determined that capital gains tax refunds claimed by mutual fund trusts nationally totalled $3.3 billion, with about 90% of the total attributable to the 1997, 1998 and 1999 tax years. For Manitoba, the related amount had been determined to be $439 million.

On March 28, 2002, the Federal Government recovered from Manitoba $168 million related to 2000 tax year mutual fund trust capital gains tax refunds. In addition, it is estimated that the overpayment for the 2001 taxation year was $112 million, one-quarter ($28 million) of which was related to the 2000/01 fiscal year. The remaining $84 million estimated overpayment was accrued as a reduction of income tax revenue in the 2001/02 fiscal year. The portions of the error which related to prior fiscal years ($196 million) have been recorded as an adjustment to the accumulated deficit.

The overall impact of the federal accounting error has significantly wider implications for three principal reasons:

- higher income tax remittances were made from the Federal Government, mainly to Manitoba and Ontario;
- lower Equalization payments were received by Manitoba, and lower Canada Health and Social Transfer (CHST) payments by Ontario; and
- higher Equalization and CHST payments were made to other provinces.

Equalization regulations in effect at the time did not correctly address the effects of the error in respect of mutual fund trusts. In fact, they exacerbated the problem by failing to recognize the impacts of the refunds on Manitoba's fiscal capacity under the Personal Income Tax calculation. On September 4, 2002, confirmation was received from the Federal Government that this anomaly is being addressed. The Federal Government announced that affected provinces would be required to return overpayments for the taxation years 1997 to 1999 net of corresponding adjustments that reflect Equalization offsets. Provinces will not be required to repay amounts for years prior to 1997 as the calculations could not be adequately verified by the federal Auditor General. The net impact of the federal settlement related to 1997 to 1999 on Manitoba is a payable of $91 million owing to the Federal Government over a ten-year period commencing in 2004/05. Because this amount pertains to prior years, this has also been recorded as an adjustment to the accumulated deficit. As anticipated in the 2002 Manitoba Budget, the Federal Government has announced an Equalization regulation amendment which will result in an adjustment to Equalization revenue estimated at $138 million for 2001/02.

Individual Income Tax for overpayments and related Equalization adjustments are reflected in the 2001/02 Operating Fund results as noted above and will be adjusted in future fiscal years as indicated in the 2002 Budget.

The Federal Government has also recognized that there was a significant fiscal challenge faced by Manitoba because of the federal error and will be providing a $140 million transitional payment in 2002/03 as projected in the 2002 Manitoba Budget.

Exhibit B
(cont'd.)

13. ADJUSTMENTS TO ACCUMULATED DEFICIT

A. Employee Future Benefits

Effective April 1, 2000, certain health care facilities and the University of Manitoba applied the new accounting recommendations for employee future benefits. It has now been determined that the related increase of $81 million applied to the accumulated deficit at March 31, 2001 was overstated by $14 million, of which $6 million was related to the elimination of the accrual for benefits in non-devolved health care facilities.

B. Net Assets of Devolved Health Care Facilities

On April 30, 2001, the Winnipeg Regional Health Authority acquired 100% of the net assets of Selkirk Laundry & Linen. No purchase price was paid for this entity, and the acquisition was accounted for directly in the accumulated deficit.

C. Liabilities

Effective April 1, 2001, as a result of a restatement of the designation of a special purpose fund held by the Winnipeg Regional Health Authority, the accumulated deficit was increased by $5 million.

14. THE PROVINCIAL-MUNICIPAL TAX SHARING ACT

The municipal share of individual and corporation income taxes, which is collected through the Government of Canada and remitted by the Province of Manitoba to municipalities in accordance with *The Provincial-Municipal Tax Sharing Act*, is not recorded as revenue or expense. This amounted to $82 million for the year ended March 31, 2002 (2001 - $78 million).

15. DEBT SERVICING

Debt servicing costs are net of cost recoveries and interest income of $1,312 million for the year ended March 31, 2002 (2001 - $1,222 million).

16. PURCHASE OF WINNIPEG HYDRO

The Purchase of Winnipeg Hydro Act received Royal Assent on August 9, 2002. The Manitoba Hydro-Electric Board has entered into an agreement with the City of Winnipeg to purchase all of the net assets of Winnipeg Hydro. The consideration principally consists of annual payments to the City of Winnipeg of $25 million per annum in years 2002 to 2006, $20 million per annum in years 2007 to 2010, and $16 million per annum in year 2011 and each year thereafter. Winnipeg Hydro is an electric utility with 94,000 customers and annual revenues of $125 million.

17. WATER POWER RENTALS

Water power rental revenue from the Manitoba Hydro-Electric Board (Hydro), in the amount of $107 million (2001 - $51 million), is included in the Summary Statement of Revenue and Expense under the Manitoba Collections category. These rentals are paid for the use of water resources in the operation of Hydro's hydroelectric generating stations. Water rental rates during the year were $3.34 per megawatt hour (MW.h) (2001 - $1.63 per MW.h). The increase in the water rental rate coincided with the termination of the agreement with Hydro with respect to northern development projects. The termination of this agreement may result in the government being contingently liable for any future claims.

Exhibit B
(cont'd.)

18. REVENUE FROM GOVERNMENT ENTERPRISES

The following amounts from Government Enterprises have been included in revenue:

	($ millions)			
	Health & Post Secondary Education Tax		**Corporation Capital Tax**	
	2002	**2001**	**2002**	**2001**
Manitoba Hydro-Electric Board (Hydro)	6	5	28	29
Manitoba Public Insurance Corporation	1	1		
Manitoba Lotteries Corporation	1	1		

Hydro also remits guarantee fees to the government based on the Hydro debt that the Province guarantees on their behalf, in line with the advantage of the Province's superior borrowing rates. The guarantee fees paid by Hydro for the year ended March 31, 2002 were $72 million (2001 - $53 million).

19. MANITOBA PUBLIC INSURANCE CORPORATION (MPIC) SURPLUS DISTRIBUTION

On December 4, 2000, the Public Utilities Board of Manitoba approved MPIC's 2001/02 Basic Insurance rate application which included a one-time surplus distribution of 16.6% on motor vehicle premiums renewed during the current fiscal year. To fund the surplus distribution an amount of $81 million was allocated from the basic insurance rate stabilization reserve.

20. SUBSEQUENT EVENT

The Manitoba Hydro Amendment Act was proclaimed on August 9, 2002. This amendment requires Manitoba Hydro to distribute up to $288 million of its retained earnings to the government by the end of its 2003/04 fiscal year.

21. COMPARATIVE FIGURES

Certain of the 2001 financial statement figures have been reclassified to be consistent with the 2002 presentation.

SPECIAL PURPOSE OPERATING FUND AND SPECIAL FUNDS FINANCIAL STATEMENTS - AUDITOR'S REPORT

Exhibit C

Office of the Auditor General

500 - 330 Portage Avenue
Winnipeg, Manitoba
CANADA R3C 0C4

AUDITOR'S REPORT

On the Special Purpose Operating Fund and Special Funds Financial Statements
Province of Manitoba

To the Legislative Assembly of Manitoba

In accordance with Section 9 of The Auditor General Act, I have audited the special purpose statement of financial position of the Operating Fund and Special Funds of the Province of Manitoba as at March 31, 2002 and the special purpose statements of revenue and expense, accumulated deficits (surpluses) and changes in cash flow and temporary investments for the year then ended. These special purpose financial statements are the responsibility of the Government. My responsibility is to express an opinion on these special purpose financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these Special Purpose Financial Statements present fairly the financial assets and liabilities of the Operating Fund and Special Funds as at March 31, 2002 and the results of operations and the changes in cash flow and temporary investments for the year then ended in accordance with the accounting policies stated in Note 1 to the financial statements and applied, on a basis consistent with that of the preceding year.

Jon W. Singleton, CA•CISA
Auditor General

Winnipeg, Manitoba
September 17, 2002

Exhibit D

EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2002"

(Schedules associated with these financial statements have not been replicated in this report. To review these Schedules, refer to the annual report noted above.)

OPERATING FUND AND SPECIAL FUNDS
SPECIAL PURPOSE STATEMENT OF FINANCIAL POSITION

As at March 31, 2002

SCHEDULE		($ millions) 2002	($ millions) 2001
	ASSETS		
	Cash and Temporary Investments (Note 2)	127	479
1	Amounts Receivable	712	690
2	Loans and Advances	778	738
3	Long-Term Investments	5	5
	Deferred Charge for Health Care Facilities (Note 1A6)	392	236
		2,014	2,148
4	Trust Assets (Note 1F)	2,062	2,018
5	Tangible Capital Assets	391	380
	TOTAL ASSETS	4,467	4,546
	LIABILITIES		
6	Borrowings	20,254	19,866
	Less: Sinking Funds (Note 4)	(6,485)	(6,189)
	Less: Debt Incurred For and Repayable By The Manitoba Hydro-Electric Board and Manitoba Lotteries Corporation	(5,871)	(5,840)
		7,898	7,837
	Less: Unamortized Foreign Currency Fluctuation	(143)	(220)
	Net Borrowings	7,755	7,617
7	Accounts Payable, Accrued Charges, Provisions and Deferrals	1,267	1,199
		9,022	8,816
4	Amounts Held in Trust for Investment or Administration (Note 1F)	2,062	2,018
	TOTAL LIABILITIES	11,084	10,834
	ACCUMULATED (DEFICITS) SURPLUSES		
	Operating Fund	(6,990)	(6,710)
	Fiscal Stabilization Fund	247	320
	Debt Retirement Fund	100	75
9	Other Special Funds	26	27
11	**ACCUMULATED DEFICIT**	(6,617)	(6,288)

Information concerning the Government's Guarantees, Financial Commitments, Contingencies and Pension Liability can be found in Notes 5, 6, 7 and 8.

Exhibit D
(cont'd.)

OPERATING FUND AND SPECIAL FUNDS SPECIAL PURPOSE STATEMENT OF REVENUE AND EXPENSE

For the Year Ended March 31, 2002

($ millions) Operating Fund	Special Funds	Total 2001		($ millions) Operating Fund Budget	Operating Fund Actual	Fiscal Stabilization Fund	Debt Retirement Fund	Other Special Funds	Total 2002
			OPERATING REVENUE (Schedule 8)						
2,050	5	2,055	Manitoba Collections..........................	2,133	2,151	-	-	2	2,153
2,201	-	2,201	Income Taxes..................................	2,129	1,965	-	-	-	1,965
2,091	-	2,091	Federal Transfers.............................	2,128	2,206	-	-	-	2,206
410	-	410	Crown Corporations.........................	413	424	-	-	-	424
-	16	16	Interest Earned................................	-	-	14	4	1	19
6,752	21	6,773		6,803	6,746	14	4	3	6,767
6,615	5	6,620	**OPERATING EXPENSES (Schedules 8 & 10)**	6,757	6,737	-	-	4	6,741
137	16	153	**NET REVENUE (EXPENSES)**	46	9	14	4	(1)	26
			INTERFUND TRANSFERS						
(96)	96	-	Transfer to Debt Retirement Fund....	(96)	(96)	-	96	-	-
			Transfer from Fiscal Stabilization Fund In Lieu of Manitoba Hydro Retained Earnings Distribution.......						
-	-	-		-	150	(150)	-	-	-
-	-	-	Other...	60	-	-	-	-	-
(96)	96	-		(36)	54	(150)	96	-	-
41	112	153	**EXCESS OF REVENUE OVER EXPENSES FOR BALANCED BUDGET LEGISLATION**	10	63	(136)	100	(1)	26
			INTERFUND TRANSFER						
(41)	41	-	Less: Transfer to Fiscal Stabilization Fund...............	(10)	(63)	63	-	-	-
-	153	153	**NET RESULT FOR THE YEAR**	-	-	(73)	100	(1)	26

Exhibit D

(cont'd.)

OPERATING FUND AND SPECIAL FUNDS SPECIAL PURPOSE STATEMENT OF ACCUMULATED DEFICITS (SURPLUSES)

For the Year Ended March 31, 2002

($ millions)

	Operating Fund	Fiscal Stabilization Fund	Debt Retirement Fund	Other Special Funds	Total 2002	Total 2001
Balance, Beginning of Year	6,710	(320)	(75)	(27)	6,288	6,424
Changes in Accounting Policy						
Federal Accounting Error (Note 9)	287	-	-	-	287	-
Amortization of Unrealized Foreign Exchange Fluctuations, Debt Discount and Deferred Income	-	-	-	-	-	21
Tangible Capital Assets (Note 3)	(4)	-	-	-	(4)	(21)
Transfer for Pension Obligation (Note 11)	-	-	75	-	75	21
Repurchase of Serial Debentures (Note 1G)	(3)	-	-	-	(3)	(4)
Net Result for the Year	-	73	(100)	1	(26)	(153)
Balance, End of Year (Schedule 11)	6,990	(247)	(100)	(26)	6,617	6,288

Exhibit D
(cont'd.)

OPERATING FUND AND SPECIAL FUNDS
SPECIAL PURPOSE STATEMENT OF CHANGES IN CASH FLOW AND TEMPORARY INVESTMENTS

For the Year Ended March 31, 2002

	($ millions) 2002	2001
Cash and Temporary Investments Provided by (Used in)		
Operating Activities:		
Net Result for the year - Operating Fund	-	-
- Special Funds	26	153
Changes in non-cash items:		
Amounts Receivable	(22)	(94)
Valuation Allowance	-	2
Accounts Payable, Accrued Charges, Provisions and Deferrals	68	83
Amortization of Foreign Currency Fluctuation	58	96
Amortization of Debt Discount	14	12
Amortization of Investment Discounts and Premiums	(4)	(14)
Amortization of Tangible Capital Assets	34	31
Adjustment to Accumulated Deficit - Federal Accounting Error	(287)	-
Adjustment to Accumulated Deficit - Other	4	-
	(109)	269
Investing Activities:		
Made	(1,298)	(863)
Realized	744	533
Acquisition of Tangible Capital Assets	(45)	(43)
	(599)	(373)
Financing Activities:		
Debt Issued	2,607	2,391
Debt Redeemed	(2,051)	(2,387)
Changes in Sinking Funds	(200)	288
	356	292
Changes in Cash and Temporary Investments	(352)	188
Cash and Temporary Investments, beginning of year	479	291
Cash and Temporary Investments, end of year	127	479

Exhibit D
(cont'd.)

NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2002

1. SIGNIFICANT ACCOUNTING POLICIES

A. General Basis of Accounting

The special purpose financial statements of the Operating Fund and Special Funds have been prepared in accordance with Canadian generally accepted accounting principles for senior governments as recommended by the Canadian Institute of Chartered Accountants (CICA), with the following exceptions:

1) Liabilities for unfunded pension benefits, while recorded in the Summary Financial Statements, have not been recorded in the Operating Fund Financial Statements.

2) The financial statements do not reflect the financial results for all of the government enterprises and Crown organizations comprising the government reporting entity. The financial operations of the latter are reflected only to the extent that their operations were financed from or contributed to the Operating Fund.

3) Material adjustments may result from changes in accounting policy or from the correction of an error which are attributable to and identifiable with prior periods. It is the government's practice to reflect the effects of such adjustments in the accumulated deficit. Prior year balances are not restated.

4) The process of establishing the completeness and reasonableness of the estimated historical cost of the tangible capital assets is ongoing. Reporting policies are currently being developed and information is being gathered for other expenditures which include infrastructure such as highways, bridges, and land acquired for public use as well as for certain works of art and historical treasures.

5) The CICA recommends that when a government reports expenses and tangible capital assets in its financial statements, tangible capital assets should be reported as a component of accumulated deficit. In addition, the Statement of Revenue and Expense should provide a reconciliation of the expense-based surplus or deficit to the change in accumulated deficit. The government reports tangible capital assets directly on its Statement of Financial Position; they are included in total assets in calculating the accumulated deficit. The Statement of Revenue and Expense is prepared on the expense basis, but is not returned to the expenditure basis of accounting to provide a reconciliation of the change in accumulated deficit. Net Debt (Schedule 11) provides a reconciliation of the accumulated deficit to the net debt.

6) Prior to the 2000/01 fiscal year, individual health care facilities issued long-term debt in their own name to finance major capital acquisitions. In 2000/01, the Province began a program to finance such debt directly, taking advantage of its superior borrowing power and rates, and lowering the cost of health related borrowings for Manitoba. This debt is included as part of the Province's general purpose borrowings. The related asset for devolved and non-devolved health care facilities is recorded as a deferred charge and amortized over the same period as the term of the debt issue.

These accounting policies have been developed and are applied in accordance with the provisions of *The Financial Administration Act*, which is Chapter F55 of the Continuing Consolidation of the Statutes of Manitoba.

B. The Reporting Entity

These statements consist of the Operating Fund, the Trust Fund and Special Funds that on a combined basis reflect the transactions and balances of these funds.

The nature and purpose of the funds reflected in these financial statements is as follows:

Exhibit D
(cont'd.)

Operating Fund - The Operating Fund is the vehicle through which the government manages and controls the operations of government departments and programs, and does not include the results of government enterprises and Crown Organizations except to the extent that they may have received funding from the Operating Fund. It is through the Operating Fund that the government reports on its stewardship of Central government operations, including measurement of its results as compared to voted appropriations, and its obligations with respect to *The Balanced Budget, Debt Repayment and Taxpayer Accountability Act*.

Debt Retirement Fund - This Fund was established on November 3, 1995 under the authority of *The Balanced Budget, Debt Repayment and Taxpayer Accountability Act*. The purpose of the Fund is to assist in the orderly repayment of debt pursuant with section 8(4) of the Act. After March 31, 2000, until the Fund is wound up, the Minister of Finance is required to deposit annually in the Fund a minimum of $96 million or such greater amount as determined by the Act.

Fiscal Stabilization Fund - This Fund was established at March 31, 1989 under the authority of *The Fiscal Stabilization Fund Act*. The purpose of the Fund is to assist in stabilizing the fiscal position of the government from year to year and to improve long-term fiscal planning. Under the provisions of the Act, the government may deposit in the Fund any part of the revenue or other financial assets received in the Operating Fund in any fiscal year and shall credit to the Fiscal Stabilization Fund any earnings from investment of the assets of the Fund. All or part of the Fund balance may be transferred to the Operating Fund in accordance with the provisions of the Act.

Section 9(a) of *The Balanced Budget, Debt Repayment and Taxpayer Accountability Act* requires that, if a surplus exists in a fiscal year in the Operating Fund, the Minister of Finance shall transfer an amount sufficient to bring the Fiscal Stabilization Fund to its target level as set out by *The Fiscal Stabilization Fund Act* or any greater amount that the Minister considers appropriate. The target level for the Fiscal Stabilization Fund is a minimum of 5% of the expense of the Operating Fund.

Mining Community Reserve - This Fund was established to assist with the welfare and employment of people who are directly affected by mine closures in Manitoba. The Lieutenant Governor in Council may transfer to this Fund each year up to 3% of the taxes collected under *The Mining Tax Act*.

Quarry Rehabilitation Reserve Fund - This Fund was established to assist in the rehabilitation of quarries deemed to be depleted. A levy of 10 cents per metric ton of all aggregate quarry mineral production in Manitoba is paid into the Fund each year.

Other Funds - Other funds included reflect the transactions of the Abandonment Reserve Fund, the Farm Machinery and Equipment Act Fund, the Elk Management Fund, the Land Titles Assurance Fund, Manitoba Law Reform Commission, Veterinary Science Scholarship Fund, Mining Rehabilitation Reserve and Victims Assistance Fund.

The combined financial statements of the Operating Fund and Special Funds are also included in the government's Summary Financial Statements which are presented separately.

C. Gross Accounting Concept

Revenues and expenses are recorded in gross amounts with the following exceptions:

1) The municipal share of individual and corporation income taxes, which is collected through the Government of Canada and remitted by the Province of Manitoba to municipalities in accordance with *The Provincial-Municipal Tax Sharing Act*, is not recorded as revenue or expense.

2) Refunds of revenue are treated as reductions of current year revenue.

3) Decreases in valuation allowances previously provided are treated as reductions to expense.

4) Recoveries of the debt servicing costs on self-supporting debt and revenue earned on investments and advances are recorded as a reduction of debt servicing expense.

Exhibit D
(cont'd.)

D. **Modified Accrual Accounting**

The revenues and expenses of the government are recorded on an accrual basis with the following exceptions.

1) **Government of Canada Receipts** – Generally, entitlements from the Government of Canada are recorded on a cash basis except for accruals of prior year adjustments determined before June 30 each year. For this 2001/02 fiscal year, a special adjustment was made in relation to additional Equalization entitlements which accrued to the Province for that year as a result of an error made by the Federal Government in remitting personal income tax collections, as described in Note 9. Though negotiations began before the year-end, final confirmation was not received from the Federal Government until September 4, 2002. Because of the significance of the amount, the accounts were held open to appropriately reflect this item in the fiscal year to which it relates.

2) **Revenue** – All revenues are recorded on an accrual basis except when the accruals cannot be determined with a reasonable degree of certainty or when their estimation is impracticable. Government transfers are recognized as revenue in the period during which the transaction is authorized and any eligibility criteria are met. Recoveries of the debt servicing costs on self-supporting debt and revenue earned on investments and advances are recorded as a reduction of debt servicing expense.

3) **Expenses** – All expenses incurred for goods or services received are recorded on an accrual basis. Exceptions to this policy involve the acquisition of inventories acquired for the government's use that are reflected as expenses when incurred.

   Expenses include provisional amounts recorded in anticipation of future costs which are quantifiable and have been identified as obligations. Government transfers are recognized as expenses in the period during which the transaction is authorized and any eligibility criteria are met.

4) **Pension Benefits** – The annual cost recorded is based on the government's share of pensions paid to retired employees, teachers and Members of the Legislative Assembly, as well as current contributions to Registered Retirement Savings Plan accounts and tax paid trusts on behalf of MLAs and employees who are pensionable outside of the Civil Service Superannuation Fund. The government does not record its liability for the unfunded cost of pension benefits earned by employees, teachers and Members of the Legislative Assembly.

E. **Liabilities and Assets**

1) All borrowings are expressed in Canadian dollars and are shown net of sinking funds, unamortized debt issue costs and debt of the Province of Manitoba held as provincial investments. Foreign borrowings are converted at the exchange rate in effect at March 31 adjusted for any forward foreign exchange contract entered for settlement after the fiscal year end. Discounts or premiums, and commissions incurred at the time of the issue of debt are amortized monthly to debt servicing expense over the term of the debt.

2) The year end translation adjustments reflecting the foreign currency fluctuation from the value at the issue date are recorded through the unamortized foreign currency fluctuation account, and amortized monthly to debt servicing expense over the remaining term of the debt. The unamortized portion of foreign currency fluctuation also reflects the gains or losses on the conversion of foreign currency debt called prior to maturity using the rates in effect at the time of the call and these gains and losses are amortized over the original remaining term of the debt.

3) Loans, advances and long-term investments are recorded at cost less valuation allowances. A valuation allowance is provided to reduce the value of the assets to their estimated realizable value or to reflect the impact of significant concessionary terms on outstanding loans. Premiums that may arise from the early repayment of loans or advances are reflected as deferred revenue and are amortized monthly to debt servicing expense over the term of the related debt issue.

Exhibit D
(cont'd.)

4) Investments denominated in foreign currency are translated to the Canadian dollar equivalent at the exchange rate in effect at March 31, unless the rate of exchange or a forward foreign exchange contract fixing the value has been negotiated, in which case that rate or amount is used. The year end investment translation adjustments reflecting the foreign currency fluctuation between year ends are amortized monthly over the remaining life of the investment and included with debt servicing expense. Expenses and other transaction charges incurred on the purchase of investments during the year are charged to debt servicing expense. Those expenses incurred in foreign currency are translated at the exchange rate in effect on the transaction date.

5) Tangible capital assets are amortized on a straight-line basis over their estimated useful lives as follows:

Land	Indefinite
Buildings – brick, mortar and steel	40 years
Buildings – wood frame	25 years
Vehicles	5 years
Aircraft and vessels	
- Aircraft frames	24 years
- Aircraft motors	5 years
- Vessels	24 years
Machinery, equipment and furniture	10 years
Road construction and maintenance equipment	15 years
Computer hardware and software	4 to 15 years
Leasehold improvements	Life of lease

One-half of the annual amortization is charged in the year of acquisition and in the year of disposal.

6) A tangible capital asset received as a donation is recorded at its fair market value with the same amount being shown as a deferred contribution which is amortized to revenue on the same basis as the asset is amortized. Where the acquisition cost of a tangible capital asset is shared with other jurisdictions under a shared cost agreement, such contributions are deducted from the cost of the related asset with any amortization calculated on the net amount.

7) During the 2000/01 fiscal year, the Federal Government created a Health Equipment and Infrastructure Fund for investment in new medical equipment. The Province's share of this fund was $37 million. Funding from the Health Equipment and Infrastructure Fund has been treated as deferred revenue and will be brought into revenue based on actual purchases of equipment according to a defined schedule.

8) Guarantees of the government are made through specific agreements or legislation to repay promissory notes, bank loans, lines of credit, mortgages and other securities. Provision for losses on guarantees are recorded when it is likely that a loss will occur. The amount of the loss provision represents the government's best estimate of future payments less recoveries.

F. Amounts Held In Trust for Investment or Administration

These amounts primarily represent sinking funds and surplus cash of government enterprises and Crown organizations on deposit with the Minister of Finance for investment. Deposits of surplus cash funds not required to be specifically invested are pooled with other available funds of the Operating Fund for investment purposes and are accorded a market rate of interest. Sinking fund contributions made by government enterprises, Crown organizations and others in respect of their direct debt are deposited with and specifically invested by the Minister of Finance. These investments are recorded at cost.

Exhibit D

(cont'd.)

G. Serial Debentures of School Divisions and Districts

The accumulated deficit of the Operating Fund includes amounts related to serial debentures of school divisions and districts, acquired by the government in prior years. The government is primarily responsible for funding the redemption of these debentures, accordingly these amounts are not reflected as assets. As the funding for annual redemptions flow from the appropriations of the government, to the school divisions and districts, and then back to the Province, the accumulated deficit of the operating fund is reduced by the amount of such redemptions.

H. Use of Estimates

In the preparation of these financial statements, estimates are sometimes necessary because a precise determination of certain assets and liabilities is dependent on future events. These estimates have been based on management's best judgements applied to available information.

2. CASH AND TEMPORARY INVESTMENTS

Temporary investments are recorded at the lower of cost and market value. As at March 31, 2002, the cost of cash and temporary investments was $127 million (2001 - $479 million) with a market value of $127 million (2001 - $482 million). Investment revenue earned on the temporary investments during the year was $10 million (2001 - $19 million).

3. TANGIBLE CAPITAL ASSETS

During the year, assets acquired in prior fiscal years with a net book value of $4 million (2001 - $2 million) were identified and recorded. Also included in the 2001 comparative figure is the capitalization of land amounting to $19 million.

4. SINKING FUNDS

Sinking funds are recorded at the lower of cost and market value. As at March 31, 2002, sinking funds had a cost of $6,485 million (2001 - $6,189 million) and a market value of $6,881 million (2001 - $6,647 million). Investment revenue earned on the sinking funds during the year was $310 million (2001 - $361 million).

Section 60 of *The Financial Administration Act* authorizes the Minister of Finance to provide for the creation and management of sinking funds for the orderly retirement of debt. The Minister of Finance may authorize, by directive, the amount, if any, to be allocated to the Province's sinking fund. The Province's sinking fund currently provides for the repurchase of foreign debt and the pre-funding of maturing debt issues. In addition, the Province's sinking fund is invested principally in securities issued or guaranteed by Canadian provinces.

The sinking funds are allocated as follows:

	($ millions)	
	2002	**2001**
Province of Manitoba	4,961	4,835
Manitoba Hydro-Electric Board	1,520	1,347
University of Manitoba	4	7
Total sinking funds	6,485	6,189

Exhibit D

(cont'd.)

5. GUARANTEES

The government has guaranteed the repayment of debt issued by government enterprises and Crown organizations, promissory notes, bank loans, lines of credit, mortgages and other securities. The outstanding guarantees are as follows:

	($ millions)	
	2002	**2001**
Promissory notes, bank loans, lines of credit and other	16	19
Debt issued by government enterprises and Crown organizations	587	407
Manitoba Grow Bonds and other	8	9
	611	435
Less: Sinking funds	25	25
Total guarantees outstanding	586	410

Provision for future losses on guarantees in the amount of $14 million has been recorded in the accounts. Debt guaranteed by the Province is guaranteed as to principal and interest until the debt is matured or redeemed.

6. FINANCIAL COMMITMENTS

The government has approved long-term financial arrangements of various entities wherein indebtedness has been issued that is not guaranteed by the government, but funding assistance is provided annually from appropriations of the Operating Fund. The government has also made future commitments against appropriations under long-term contracts that cover the rental of tangible capital assets. These financial commitments as at March 31 are as follows:

	($ millions)	
	2002	**2001**
Financial arrangements for completed projects:		
Hospitals and personal care homes	615	575
Public schools	416	387
Manitoba Housing and Renewal Corporation	191	198
Brandon University	2	2
	1,224	1,162
Future commitments:		
Infrastructure and capital grants	86	111
Rental of tangible capital assets	103	101
	189	212
	1,413	1,374

In addition to the approved outstanding debt for hospitals and personal care homes, lines of credit up to $73 million (2001 - $128 million) have been approved to finance capital projects for hospitals and personal care homes currently in process. On completion of these projects, the borrowings will be converted to other financing arrangements.

In December of 2001, the government entered into a funding agreement with the City of Winnipeg and the TN Arena Limited Partnership regarding the True North Entertainment Complex. The Province's maximum commitment, after Federal Infrastructure contributions, is $13 million.

Exhibit D
(cont'd.)

7. CONTINGENCIES

The government has been named in various legal actions, including treaty land entitlements. No provision has been made at March 31, 2002 in the accounts where the final results are uncertain.

A. Canadian National Railways (CNR)

The CNR had requested a declaration that *The Retail Sales Tax Act* does not apply to a major part of its costs related to railway rolling stock. CNR also requested a refund of sales tax it had paid in that respect. In April, 2002, CNR and the Province agreed to abandon their actions as well as their claims and each agreed to release the other party.

B. Flood Costs

A provision has been made at March 31, 2002 for all flood claims and disaster financial assistance. The final amount of the government's share of these costs in the future is uncertain at the date these financial statements were issued.

C. Northern Development Projects - Water Rental Rate Agreement

Effective April 1, 2001, the government terminated an agreement under which it fixed water power rates in return for Manitoba Hydro-Electric Board assuming the Province's obligations for northern development projects. The termination of this agreement may result in the government being contingently liable for any future claims.

8. PENSION LIABILITY

The government of the Province of Manitoba supports three separate pension plans. These include the Civil Service Plan (CSP), the Teachers' Plan (TP) and the Members of the Legislative Assembly Plan (MLAP).

The government is required, under the amended provisions of *The Balance Budget, Debt Repayment and Taxpayer Accountability Act*, to set aside funds beginning in 2000/01, to address the government's unfunded pension liability. The minimum annual contribution must be sufficient to equal the contributions made by employees and teachers hired on or after April 1, 2000. While the minimum contribution was $6 million (2001 - $3 million) for the year ended March 31, 2002, the government set aside $75 million (2001 - $21 million) in the pension assets trust account. These funds are separately invested and maintained in trust accounts of the government and are increased by interest earned. The balance in the account as at March 31, 2002 was $107 million.

The actuarial valuations were based on a number of assumptions about future events, such as interest rates, wage and salary increases, inflation rates and rates of employee turnover, disability and mortality. Information about the economic assumptions used in the most recent actuarial valuations is provided below. Demographic assumptions used in the valuations reflect the experience of the plans.

Plan	Latest Valuation	Real Rate of Return	Inflation Rate	Investment Rate of Return
Civil Service	December 31, 1998	4.0%	3.0%	7.0%
Teachers'	January 1, 2001	4.0%	3.0%	7.0%
MLA	March 31, 2000	4.0%	3.0%	7.0%

During the year, no amendments were made to any of the plans.

Exhibit D

(cont'd.)

A. Civil Service Plan

The Civil Service Superannuation Act (CSSA) established a defined benefit plan to provide benefits to employees of the Manitoba Civil Service and to participating agencies of the government through the Civil Service Superannuation Fund (CSSF).

As at March 31, 2002, the CSP had approximately 25,900 (2001 - 25,100) participants including active members, retired employees and former employees with entitlements.

Certain amendments to the CSSA were made in 1992 which required that the CSSF establish and fund a separate account in an amount sufficient to cover the government's share of pension costs attributable to the 1992 amendments to the CSSA. The CSSF account maintained on behalf of the government at March 31, 2002, was $29 million (2001 - $28 million).

Effective December 15, 2000, the CSP was amended to include improved benefits. The cost of the plan amendments was fully funded from actuarially determined employee surpluses with no additional cost to the employer. The following describes the current terms of the CSP, with the previous terms indicated within brackets.

The lifetime pension calculation equals 2% of a member's best five years average yearly pensionable earnings multiplied by pensionable service, minus 0.4% (previously 0.6%) of the average Canada Pension Plan (CPP) earnings for the same period multiplied by pensionable service since January 1, 1966.

The CSSA requires that employees contribute 6.0% (previously 5.1%) on pensionable earnings up to the CPP maximum earnings, and 7.0% of pensionable earnings above the maximum. 89.8% of contributions are used to fund basic benefits and 10.2% of contributions are allocated for indexing benefits. Contributions continue until the employee's retirement or other termination from service. Employee contributions for the year ended March 31, 2002 amounted to $39 million (2001 - $35 million).

Indexing benefits are not guaranteed and are paid only to the extent that the indexing adjustment account in CSSF can finance one-half of cost-of-living increases granted. The maximum annual adjustment is limited by legislation to two-thirds of the increase in the consumer price index for Canada.

The government does not make contributions to the CSSF during employees' service. By legislation, however, it is required to pay 50% of the pension disbursements made from the CSSF. For the year ended March 31, 2002, payments of $53 million (2001 - $51 million) were made to the CSSF.

An actuarial valuation report of the government's liability to the employees included in the CSSF was completed as of December 31, 1998. The report provides a formula to update the liability on an annual basis. In accordance with the formula, the government's actuarial liability has been calculated on an indexed basis to be $1,277 million as at March 31, 2002 (2001 - $1,194 million).

B. Teachers' Plan

The Teachers' Pensions Act (TPA) established a defined benefit plan to provide pension benefits to teachers who have taught in public schools in Manitoba.

As at March 31, 2002, the Teachers' Retirement Allowances Fund (TRAF) had approximately 29,000 (2001 - 29,000) participants including active members, retired teachers and former teachers with entitlements.

Exhibit D

(cont'd.)

The lifetime pension calculation is based upon the lesser of A or B:

A) The years of service prior to July 1, 1980, multiplied by 2% and the average salary of the best 7 of the final 12 years of service and years of service after July 1, 1980, multiplied by 2% and the average salary of the best 5 of the final 12 years of service;

less

The years of service from January 1, 1966, to July 1, 1980, multiplied by .6% and the average annual salary up to the yearly maximum pensionable earnings for the same period and years of service after July 1, 1980, multiplied by .6% and the annual salary up to the yearly maximum pensionable earnings for the same period.

B) 70% of the weighted average annual salary of the member in the 7 and 5 year periods used above.

The TPA requires that teachers contribute 5.7% on pensionable earnings up to the CPP maximum earnings, and 7.3% on pensionable earnings above the maximum. 83.6% of contributions are used to fund basic benefits and 16.4% of contributions are allocated for indexing benefits. Contributions continue until the teacher's retirement or other termination from service. Teacher contributions for the year ended March 31, 2002, amounted to $47 million (2001 - $46 million).

Indexing benefits are not guaranteed and are paid only to the extent that one half of the pension adjustment does not result in an unfunded pension liability in TRAF.

The government does not make contributions to TRAF during teachers' service. By legislation, however, it is required to pay 50% of the pension disbursements and other disbursements made by TRAF as provided for in the TPA. For the year ended March 31, 2002, payments of $84 million (2001 - $76 million) were made to TRAF.

An actuarial report was completed for TRAF as of January 1, 2001, which determined the government's pension liability on an indexed basis. The report provides a formula to update the liability on an annual basis. In accordance with the formula, the government's actuarial liability has been calculated on an indexed basis to be $1,833 million at March 31, 2002 (2001 - $1,687 million).

C. Members of the Legislative Assembly Plan

The pension plan for Members of the Legislative Assembly (MLAs) is established and governed by *The Legislative Assembly Act* (LAA). For MLAs elected prior to the dissolution of the Assembly of the 35th Legislature, the LAA provides for defined pension benefits based on years of service. For those elected after the 35th Legislature in April 1995, the LAA provides for matching contributions. As at March 31, 2002, there are 119 (2001 – 123) plan members who are entitled to receive future pension benefits in accordance with the LAA.

The calculation for defined pension benefits is equal to 3% of the average annual indemnities for the last five years served as a member or all the years served if less than five multiplied by the number of years of pensionable service up to April 1995. These entitlements are fully indexed to cost of living increases.

An actuarial valuation report of the government's liability to the MLAs included in the pension plan was completed as of March 31, 2000. The report provides a formula to update the liability on an annual basis. In accordance with the formula, the government's actuarial liability has been calculated on an indexed basis to be $28 million as at March 31, 2002 (2001- $28 million).

Under the matching contributions provisions, MLAs may contribute up to 7% of their remuneration toward a Registered Retirement Savings Plan (RRSP) of their choice. The government matches the member's contributions on a current basis, consequently, there is no liability for past service benefits under this component of the plan. In the event that a member withdraws money from the RRSP while an active member of the Legislative Assembly, the government's contribution would be refundable.

Exhibit D
(cont'd.)

9. FEDERAL ERROR ON INCOME REMITTANCES AND RELATED EFFECTS ON EQUALIZATION

Under federal-provincial tax collection agreements, the Federal Government administers personal income taxes on behalf of all provinces other than Québec. It has responsibility for the collection of provincial income taxes and for paying the amounts owed to provincial governments. Provinces rely entirely on federal payment reporting and accounting processes. The Federal Government makes interim payments to provinces during the taxation year, based on an estimate of the total amount of provincial income taxes that will ultimately be assessed on tax returns in each province. After the income tax returns for the tax year have been filed and processed, the taxes actually assessed in the province are reconciled with the interim payments. If the interim payments were too high, the difference is paid by the province to Canada or, if they were too low, by Canada to the province.

In the case of mutual fund trusts, refunds of provincial tax assessed on capital gains were never accounted for in the federal reconciliation calculation. On January 29, 2002, the Federal Government disclosed this longstanding error to provinces. For the tax years 1993 through 1999, the Federal Government had determined that capital gains tax refunds claimed by mutual fund trusts nationally totalled $3.3 billion, with about 90% of the total attributable to the 1997, 1998 and 1999 tax years. For Manitoba, the related amount had been determined to be $439 million.

On March 28, 2002, the Federal Government recovered from Manitoba $168 million related to 2000 tax year mutual fund trust capital gains tax refunds. In addition, it is estimated that the overpayment for the 2001 taxation year was $112 million, one-quarter ($28 million) of which was related to the 2000/01 fiscal year. The remaining $84 million estimated overpayment was accrued as a reduction of income tax revenue in the 2001/02 fiscal year. The portions of the error which related to prior fiscal years ($196 million) have been recorded as an adjustment to the accumulated deficit.

The overall impact of the federal accounting error has significantly wider implications for three principal reasons:

- higher income tax remittances were made from the Federal Government, mainly to Manitoba and Ontario;
- lower Equalization payments were received by Manitoba, and lower Canada Health and Social Transfer (CHST) payments by Ontario; and
- higher Equalization and CHST payments were made to other provinces.

Equalization regulations in effect at the time did not correctly address the effects of the error in respect of mutual fund trusts. In fact, they exacerbated the problem by failing to recognize the impacts of the refunds on Manitoba's fiscal capacity under the Personal Income Tax calculation. On September 4, 2002, confirmation was received from the Federal Government that this anomaly is being addressed. The Federal Government announced that affected provinces would be required to return overpayments for the taxation years 1997 to 1999 net of corresponding adjustments that reflect Equalization offsets. Provinces will not be required to repay amounts for years prior to 1997 as the calculations could not be adequately verified by the federal Auditor General. The net impact of the federal settlement related to 1997 to 1999 on Manitoba is a payable of $91 million owing to the Federal Government over a ten-year period commencing in 2004/05. Because this amount pertains to prior years, this has also been recorded as an adjustment to the accumulated deficit. As anticipated in the 2002 Manitoba Budget, the Federal Government has announced an Equalization regulation amendment which will result in an adjustment to Equalization revenue estimated at $138 million for 2001/02.

Individual Income Tax for overpayments and related Equalization adjustments are reflected in the 2001/02 Operating Fund results as noted above and will be adjusted in future fiscal years as indicated in the 2002 Budget.

The Federal Government has also recognized that there was a significant fiscal challenge faced by Manitoba because of the federal error and will be providing a $140 million transitional payment in 2002/03 as projected in the 2002 Manitoba Budget.

Exhibit D
(cont'd.)

10. EXPENSES IN EXCESS OF LEGISLATIVE AUTHORITY

The following voted appropriations were over expended as a result of adjustments after March 31, 2002.

	($ millions)
Employee Pensions and Other Costs	
Employee Pensions and Other Costs	2
Justice	
Criminal Justice	1
Other Appropriations	
Allowance for Losses and Expenditures Incurred by Crown Corporations and Other Provincial Entities	1

11. TRANSFER FOR DEBT RETIREMENT AND PENSION OBLIGATIONS

The government transferred $96 million to the Debt Retirement Fund from the Operating Fund for the specific purpose of reducing general purpose debt and pension obligations with the Civil Service Superannuation Fund and the Teachers' Retirement Allowances Fund. The transfer was made in accordance with subsection 8 (4) of *The Balanced Budget, Debt Repayment and Taxpayer Accountability Act*. The government transferred $75 million from the Debt Retirement Fund for the specific purpose of reducing pension obligations with the Civil Service Superannuation Fund and the Teachers' Retirement Allowances Fund. This transfer was made in accordance with subsection 8 (6) of *The Balanced Budget, Debt Repayment and Taxpayer Accountability Act*. The balance in the pension assets trust account as at March 31, 2002 was $107 million.

12. BALANCED BUDGET LEGISLATION

Section 6 of *The Balanced Budget, Debt Repayment and Taxpayer Accountability Act* requires the Minister of Finance to report on compliance with the Act in the audited financial statements of the Operating Fund for each fiscal year. The Statement of Revenue and Expense shows a positive balance of $63 in the Operating Fund. The government is therefore in compliance with the Act.

13. WATER POWER RENTALS

Water power rental revenue from the Manitoba Hydro-Electric Board (Hydro), in the amount of $107 million (2001 - $51 million), is included in the Special Purpose Statement of Revenue and Expense under the Manitoba Collections category. These rentals are paid for the use of water resources in the operation of Hydro's hydroelectric generating stations. Water rental rates during the year were $3.34 per megawatt hour (MW.h) (2001 - $1.63 per MW.h). The increase in the water rental rate coincided with the termination of the agreement with Hydro with respect to northern development projects. The termination of this agreement may result in the government being contingently liable for any future claims.

14. REVENUE FROM GOVERNMENT ENTERPRISES

The following amounts from Government Enterprises have been included in revenue:

	($ millions)			
	Health & Post Secondary Education Tax		**Corporation Capital Tax**	
	2002	**2001**	**2002**	**2001**
Manitoba Hydro-Electric Board (Hydro)	6	5	28	29
Manitoba Public Insurance Corporation	1	1		
Manitoba Lotteries Corporation	1	1		

Exhibit D
(cont'd.)

Hydro also remits guarantee fees to the government based on the Hydro debt that the Province guarantees on their behalf, in line with the advantage of the Province's superior borrowing rates. The guarantee fees paid by Hydro for the year ended March 31, 2002 were $72 million (2001 - $53 million).

15. SUBSEQUENT EVENT

The Manitoba Hydro Amendment Act was proclaimed on August 9, 2002. This amendment requires Manitoba Hydro to distribute up to $288 million of its retained earnings to the government by the end of its 2003/04 fiscal year.

16. COMPARATIVE FIGURES

Certain of the 2001 financial statement figures have been reclassified to be consistent with the 2002 presentation.

Exhibit E

SUMMARY OF WHO CONDUCTS THE AUDITS

(OAG - Office of the Auditor General; PSA - Private Sector Auditors)

	Audit Conducted By	
	OAG	**PSA**
Government Enterprises		
Leaf Rapids Town Properties Ltd.	X	
Manitoba Hazardous Waste Management Corporation		X
Manitoba Hydro-Electric Board		X
Manitoba Liquor Control Commission		X
Manitoba Lotteries Corporation		X
Manitoba Product Stewardship Corporation		X
Manitoba Public Insurance Corporation		X
Workers Compensation Board		X
Crown Organizations		
Addictions Foundation of Manitoba		X
Assiniboine Community College		X
Board of Administration under the Embalmers and Funeral Directors Act	X	
Brandon University	X	
CancerCare Manitoba		X
Centre Culturel Franco-Manitobain	X	
Child and Family Services of Central Manitoba		X
Child and Family Services of Western Manitoba		X
Communities Economic Development Fund		X
Cooperative Loans and Loans Guarantee Board	X	
Cooperative Promotion Board	X	
Council on Post-Secondary Education	X	
Crown Corporations Council		X
Deer Lodge Centre Inc.		X
Economic Innovation and Technology Council	X	
Helen Betty Osborne Foundation	X	
Horse Racing Commission	X	
Insurance Council of Manitoba		X
Keewatin Community College		X
Legal Aid Services Society of Manitoba	X	
Manitoba Adolescent Treatment Centre Inc.		X
Manitoba Agricultural Credit Corporation	X	
Manitoba Arts Council		X
Manitoba Boxing Commission		X
Manitoba Centennial Centre Corporation	X	
Manitoba Community Services Council Inc.		X
Manitoba Crop Insurance Corporation	X	
Manitoba Development Corporation		X
Manitoba Film and Sound Development Corporation		X
Manitoba Foundation	X	
Manitoba Gaming Control Commission		X

Exhibit E
(cont'd.)

	Audit Conducted By	
	OAG	PSA
Manitoba Habitat Heritage Corporation	X	
Manitoba Health Research Council		X
Manitoba Health Services Insurance Plan	X	
Manitoba Hospital Capital Financing Authority	X	
Manitoba Housing and Renewal Corporation	X	
Manitoba Trade and Investment Corporation	X	
Manitoba Water Services Board	X	
Public Schools Finance Board	X	
Red River College		X
Rehabilitation Centre for Children, Inc.		X
Special Operating Agencies Financing Authority	X	
University of Manitoba	X	
Venture Manitoba Tours Ltd.		X
Winnipeg Child and Family Services		X
Special Operating Agencies		
Civil Legal Services		X
Companies Office		X
Fire Commissioner, Office of the		X
Fleet Vehicles Agency		X
Food Development Centre		X
Industrial Technology Centre		X
Land Management Services		X
Mail Management Agency		X
Manitoba Education, Research and Learning Information Networks (MERLIN)		X
Manitoba Securities Commission		X
Manitoba Text Book Bureau	X	
Materials Distribution Agency		X
Organization and Staff Development	X	
Pineland Forest Nursery		X
The Property Registry		X
The Public Trustee	X	
Vital Statistics Agency		X
Regional Health Authorities		
Brandon Regional Health Authority Inc.		X
Burntwood Regional Health Authority Inc.		X
Churchill Regional Health Authority Inc.		X
Interlake Regional Health Authority		X
Marquette Regional Health Authority Inc.		X
NOR-MAN Regional Health Authority Inc.		X
North Eastman Health Authority Inc.		X
Parkland Regional Health Authority Inc.		X
Regional Health Authority - Central Manitoba Inc.		X
South Eastman Regional/Sante Sud-Est Inc.		X
South Westman Regional Health Authority Inc.		X
Winnipeg Regional Health Authority Inc.		X

Exhibit F

HEALTH REPORT CARD

Office of the Auditor General

500 - 330 Portage Avenue
Winnipeg, Manitoba
CANADA R3C 0C4

AUDITOR'S REPORT

To the Minister of Health

I have audited the **Manitoba health indicators** presented in ***Manitoba's Health Indicators Report*** dated September 2002, as prepared by the Department of Health based on the commitment made in the First Ministers' Meeting Communiqué on Health, of September 11th 2000. The Conference of Deputy Ministers defined 67 specific health indicators to be regularly reported to Canadians. Reporting of the Manitoba health indicators, in accordance with Criteria in Annex 1 is the responsibility of the Manitoba Department of Health. The Department is reporting 56 of the 67 indicators. My responsibility is to express an opinion on these health indicators based on my audit. However, my responsibility does not extend to assessing the performance achieved, nor the relevance of the Manitoba health indicators. My audit was limited to information relating to the most recent year for which each Manitoba health indicator was reported.

Data for ***Manitoba's Health Indicators Report*** are derived from four main sources:

- Manitoba Department of Health, Provincial Health Information Systems;
- Statistics Canada;
- Canadian Institute for Health Information (CIHI); and
- Health Canada.

Except as explained in the following paragraphs, I conducted my audit in accordance with standards for assurance engagements of the Canadian Institute of Chartered Accountants. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the Manitoba health indicators are free of significant misstatement. To this end, I have audited these health indicators to determine whether they meet the Criteria in Annex 1. Such an audit includes examining, on a test basis, evidence supporting the Manitoba health indicators and disclosures. An audit also includes assessing significant judgments made by management of the Manitoba Department of Health.

Manitoba Department of Health Data Reservation:

Provincial data for the following 6 Manitoba health indicators were drawn from the relevant Manitoba Department of Health databases:

- *Home Care Admissions;*
- *Waiting Times for Hip Surgery; and*
- *Waiting Times for Knee Replacement Surgery.*
- *Waiting Times for Cardiac Surgery*
- *Waiting Times for Radiation Therapy – Breast Cancer*
- *Waiting Times for Radiation Therapy – Prostate Cancer*

Exhibit F

(cont'd.)

These data are produced by certain information systems, which could not reasonably be audited due to the absence of controls to ensure data completeness, accuracy or the adequacy of disclosure for these Manitoba indicators. Consequently, I am unable to form an opinion on the completeness and accuracy of the data used, or the adequacy of disclosure, for these Manitoba health indicators.

CIHI Data Reservation:

Data used for the following 7 Manitoba health indicators were drawn from the relevant CIHI databases:

- *30-day Acute Myocardial Infarction Mortality Rate;*
- *30-day Stroke Mortality Rate;*
- *Total Hip Replacement Rate;*
- *Total Knee Replacement Rate,*
- *Hospital Re-Admission Rate For Acute Myocardial Infarction;*
- *Hospital Re-Admission Rate for Pneumonia; and*
- *Hospitalization Rate for Ambulatory Care Sensitive Conditions.*

At this time, I am unable to provide an opinion on the accuracy of the data and the adequacy of disclosure on limitations of the data drawn from the Discharge Abstract/Hospital Morbidity Database of the Canadian Institute for Health Information for the seven PIRC indicators, because of a lack of documentation on the quality assurance process, and because the 3-year re-abstraction study, which will provide information on the quality of input data, will not be completed for another two years.

Health Canada Data Reservation:

National data for the following 8 Manitoba health indicators were drawn from the relevant Health Canada databases:

- *Invasive Meningococcal Disease Incidence Rate;*
- *Measles Incidence Rate;*
- *Haemophilus Influenzae b (Invasive) Disease Incidence Rate for Children;*
- *Prevalence of Diabetes;*
- *Tuberculosis Incidence Rate;*
- *Reported HIV Diagnosis;*
- *Verotoxogenic E. Coli Incidence Rate; and*
- *Chlamydia Incidence Rate.*

Participation in these databases is voluntary, and there is a lack of formal federal/provincial/territorial agreements on data sharing, data standards and data definitions. The quality assurance processes for these databases are inadequate to ensure the accuracy of the data. Health Canada states in the federal health indicators report that improvements are required on data quality. Consequently, I am unable to form an opinion on the accuracy of the data or on the adequacy of disclosure for these 8 Manitoba health indicators.

Exhibit F

(cont'd.)

In my opinion, ***except for the 21 Manitoba health indicators as noted in the preceding reservation paragraphs, and except for the effect of any adjustments if any, which I might have determined to be necessary had the source data limitations as disclosed by Management in their Statement of Management Responsibility not been present,*** the remaining 35 Manitoba health indicators included in ***Manitoba's Health Indicators Report*** dated September 2002, that were subject to my audit, are in all significant respects, presented fairly in accordance with the Criteria in Annex 1, and provide the information required by the public reporting commitment made in the First Ministers' Meeting Communiqué on Health, of September 11th 2000.

Management of the Manitoba Department of Health has adequately disclosed the limitations of source data with respect to completeness and accuracy in their statement of responsibility, which precedes this audit opinion. As well, management of the Manitoba Department of Health has adequately disclosed and explained the absence of 11 health indicators where the source information for these indicators is not presently available.

Manitoba's Health Indicators Report includes comparative health indicators, not audited by us, relating to other governments (provincial, territorial and federal). Health indicators for other provinces and territories, and for Canadian government programs have been audited by other auditors, or other auditors have been engaged to perform specified auditing procedures. Annex 2 includes an explanation of the difference between these two types of engagements and identifies the nature of the engagement performed in each of the jurisdictions. The auditors' findings and observations resulting from engagements in other Canadian jurisdictions are included in the reports of the respective jurisdictions.

I am encouraged by the work undertaken by the Manitoba Department of Health in the preparation of its first health indicators report. The Manitoba Health Indicators Report is a continuing work in progress. Management of the Manitoba Department of Health has set out areas where the Manitoba Health indicators depart from the Criteria in Annex 1. Management has fairly stated the departures and why they exist. Readers are encouraged to use the Manitoba Health Indicators Report, but in doing so, to keep in mind management's explanations of the departures.

Winnipeg Manitoba
September 23, 2002

Jon W. Singleton, CA•CISA
Auditor General

ANNEX 1

Exhibit F
(cont'd.)

Audit criteria

The Manitoba Department of Health has acknowledged the suitability of the following criteria:

Completeness

The health indicators reported meet all performance measurement and reporting requirements of the commitment of the First Ministers' Meeting Communiqué on Health of September 11, 2000. The health indicators comply with the definitions, technical specifications and standards of presentation approved by the Conference of Deputy Ministers.

Accuracy

The health indicators reported adequately reflect the facts, to an appropriate level of accuracy.

Adequate Disclosure

The health indicators are defined, and their significance and limitations are explained. The report states and properly describes departures from what was approved by the Conference of Deputy Ministers, and explains plans for the future resolution of non-compliance issues.

Exhibit F

(cont'd.)

ANNEX 2

Verification of Comparative Information from Other Jurisdictions

The governments of Canada, the Territories and the Provinces have adopted different approaches to meet the September 2000 First Ministers Meeting Communiqué on Health requirement in respect of "third party verification" for their health reports. Some have engaged their auditor to provide audit assurance on their health reports and others have asked for specified auditing procedures to be applied. The paragraphs below outline the major differences between an audit assurance engagement and a specified auditing procedures engagement. For a complete comparison, please refer to the CICA Handbook section 5025 for audit assurance engagements and section 9100 for specified auditing procedure engagements. I believe, for the reasons described in the following paragraphs, that an audit under CICA Handbook section 5025 is the advisable approach.

In an attest audit engagement, the auditor's responsibility is to offer assurance to users, in the form of an audit opinion, on a report prepared by management. The auditor determines the nature, extent, timing, appropriateness and sufficiency of audit procedures, which, in the auditor's judgement, are necessary to provide a high level of assurance concerning the subject matter, or the health indicators in a health indicators report in the present context.

In a specified auditing procedure engagement, the auditor's responsibility is to report the results of applying auditing procedures specified by management. As the extent of specified auditing procedures may vary from engagement to engagement, such engagements are difficult to compare. And since the extent of the procedures performed is not sufficient to constitute an audit, the reports do not provide an audit opinion. Reports state those procedures actually applied and only the factual results of those procedures, leaving the reader to determine the fairness of the information.

The following is a list of jurisdictions that have engaged their auditor to provide audit assurance on their health indicators, and those that have asked for specified auditing procedures to be applied.

Audit opinion **CICA 5025**	**Specified Auditing Procedures** **CICA 9100**
British Columbia	Alberta
Saskatchewan	Ontario
Manitoba	New Brunswick
Quebec	Prince Edward Island
Nova Scotia	Newfoundland and Labrador
Yukon	
Northwest Territories	
Nunavut	
Canada	

Excerpt: The Auditor General Act

Audit of government accounts

9(1) The Auditor General is the auditor of the accounts of the government, including those relating to the Consolidated Fund, and must make any examinations and inquiries that he or she considers necessary to enable the Auditor General to report as required by this Act.

Audit of other public money

9(2) The Auditor General is responsible for examining and auditing public money that is not part of the Consolidated Fund, unless an Act provides otherwise.

Audit of the Public Accounts

9(3) The Auditor General is responsible for examining and auditing the financial statements included in the Public Accounts under The Financial Administration Act, and any other statements the Minister of Finance presents for audit.

Reliance on external auditor's report

13 In order to fulfil his or her responsibilities as the auditor of the government's accounts, the Auditor General may rely on the report of an external auditor of a government organization or of a subsidiary of a government organization.

Copies of this report may be obtained by contacting:

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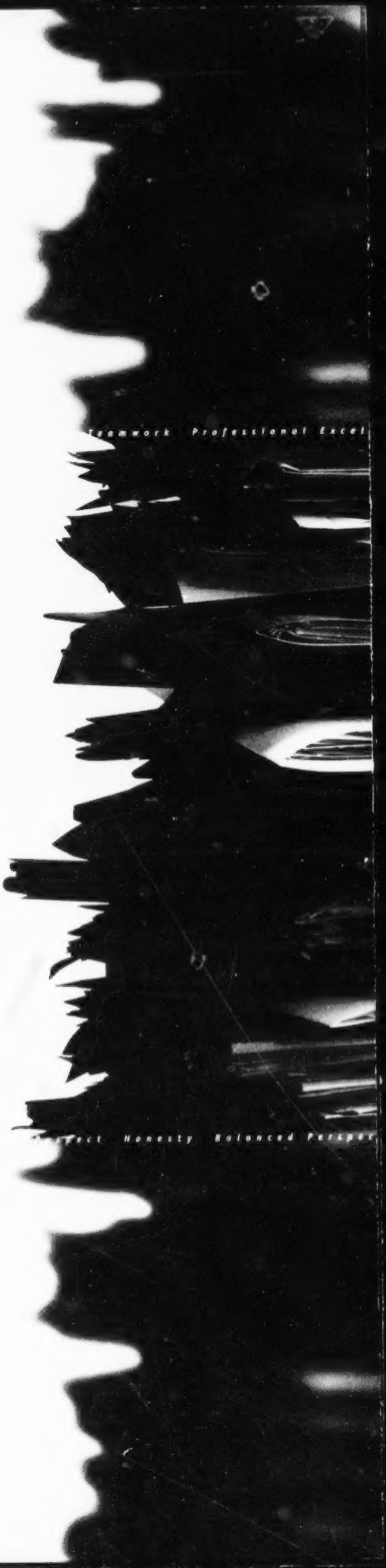

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